

# Financial Review of the Global Oil and Natural Gas Industry 2014



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## Overview

- This analysis focuses on the financial and operating trends of 75 oil and natural gas companies (“energy companies”).
- The data come from public financial statements each company submits to the U.S. Securities and Exchange Commission, which Evaluate Energy (a data service) aggregates for ease of data analysis.
- For consistency, companies that were later acquired by another company in the group were kept in the prior year data. For example, ExxonMobil and XTO’s individual numbers were kept through 2009.
- Cash flow statements list various sources and uses of cash; this analysis focuses on three main sources (operations, net debt, and net sales of assets) and three main uses (capital expenditure, dividends to shareholders, and net share issuance).
- Several charts show comparisons between these upstream companies and the U.S. manufacturing industry, collected from U.S. Census Bureau’s *Quarterly Financial Report*.

## Brief description of terms

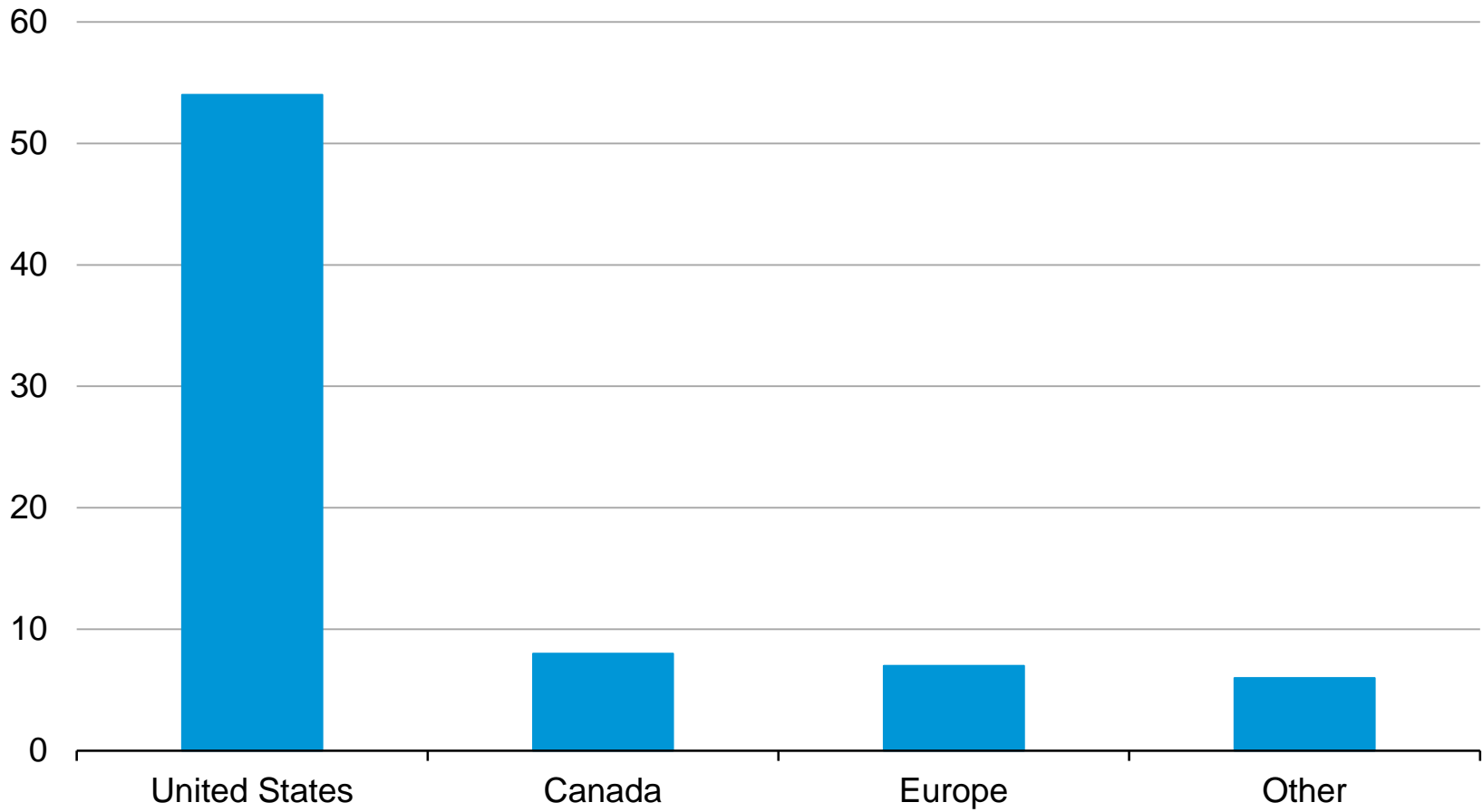
- Cash from operations is a measure of income.
- Capital expenditures represent cash used for property, plant, and equipment (investing activities).
- Financing activities measure inflows/outflows in debt or equity markets including dividends, share issuance or repurchases, and debt issuance or repayments.
- Return on equity is a measure of the profit a company earns on money shareholders have invested.
- Market capitalization is the total value of all of a company's publicly traded shares outstanding.
- Net income or earnings represent profit after taxes and depreciation.
- Asset impairments are when a company writes down the value of a property to reflect current market value, which may decline from loss of production potential or price declines.
- "Upstream" refers to crude oil exploration, production, and other operations prior to refining.

## Key takeaways

- Price declines in the second half of 2014 contributed to reduced profitability for these companies compared to previous years.
- Free cash flow remained low compared to previous years. Share repurchases and dividends were met by increasing debt and sales of assets.
- Lower prices contributed to lower proved reserve additions compared to previous years.
- Some companies increased cash balances given the volatile price environment.
- First-quarter 2015 results could show significant reductions in profits, cash flow, and capital expenditure because of low oil prices.
- In refining, geographic differences in refining margins continued in 2014.

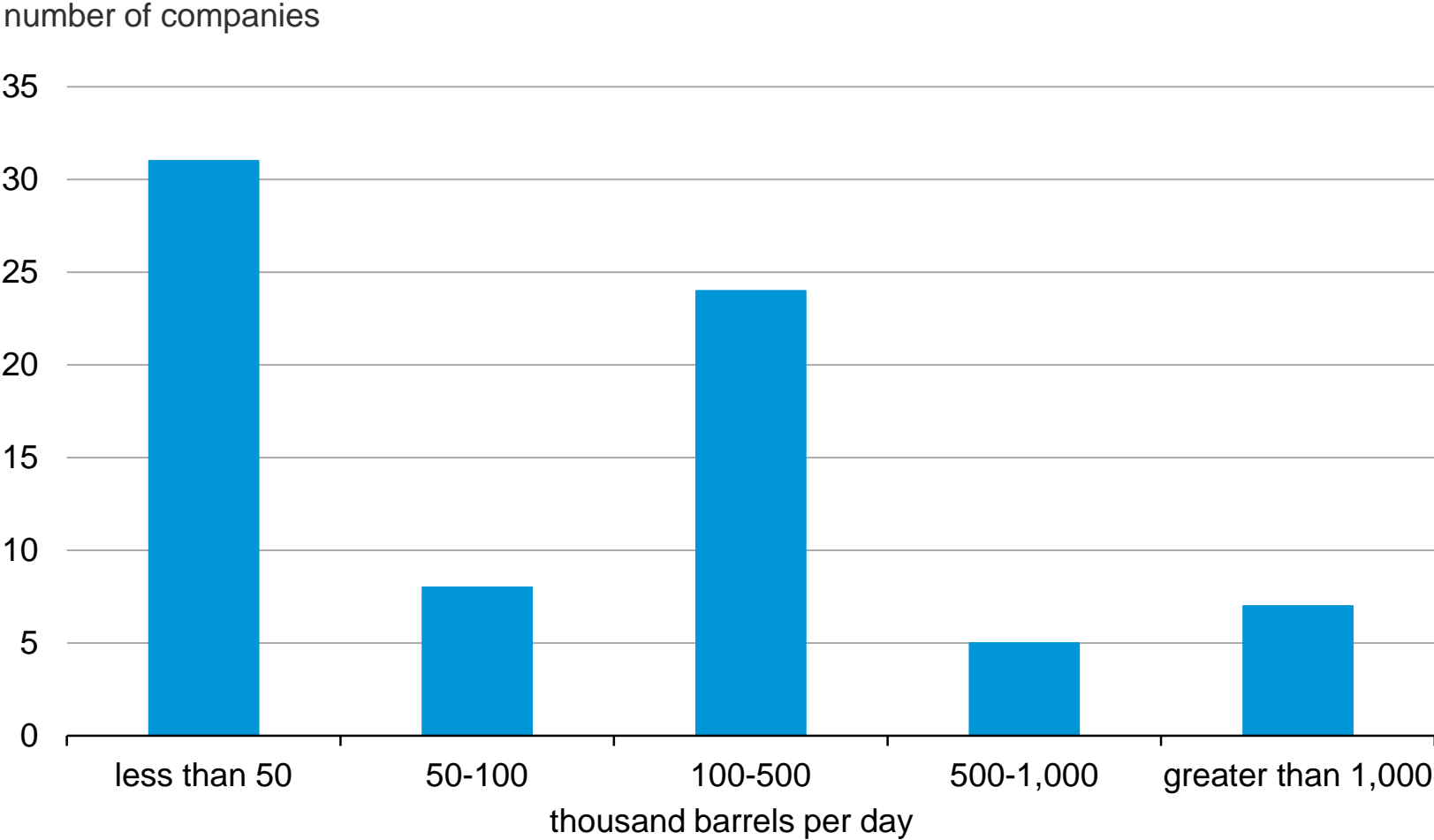
# Geographic distribution of companies

number of companies



Source: U.S. Energy Information Administration, Evaluate Energy

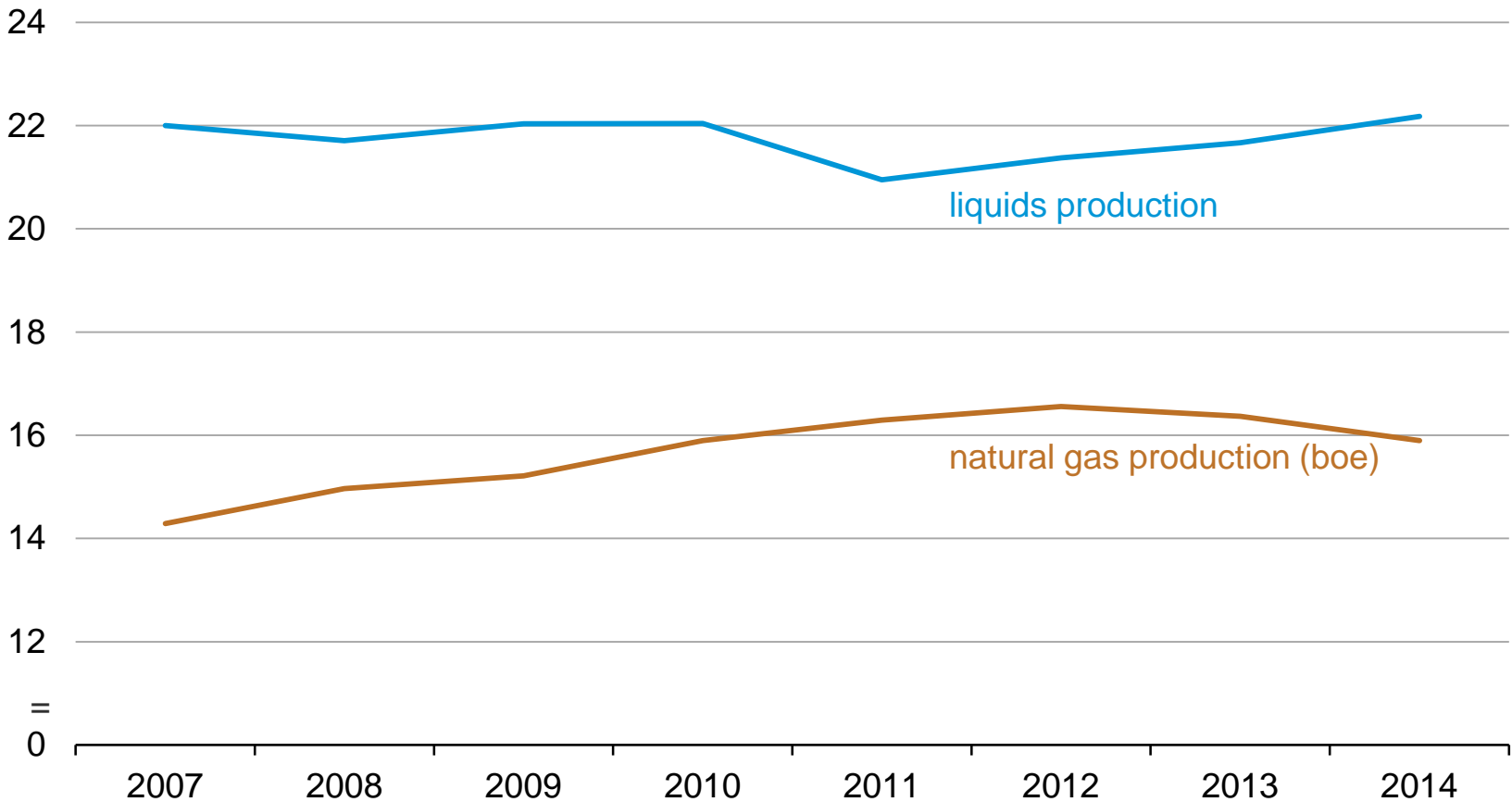
# Liquids production distribution



Source: U.S. Energy Information Administration, Evaluate Energy

# Oil and natural gas production for the combined companies

million barrels per day

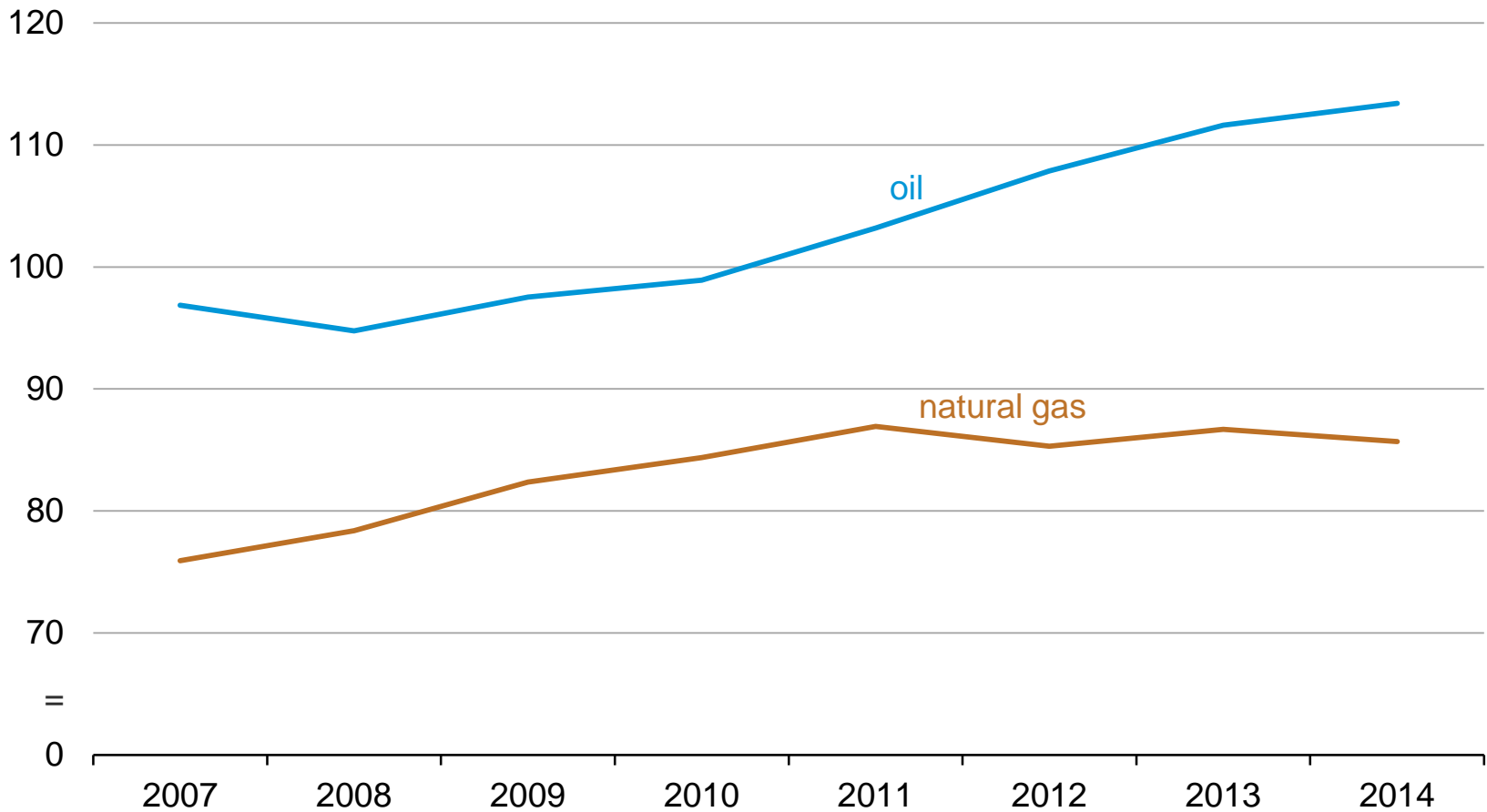


Source: U.S. Energy Information Administration, Evaluate Energy

Note: boe=barrels of oil equivalent

# Oil and natural gas proved reserves for the combined companies

billion barrels of oil equivalent

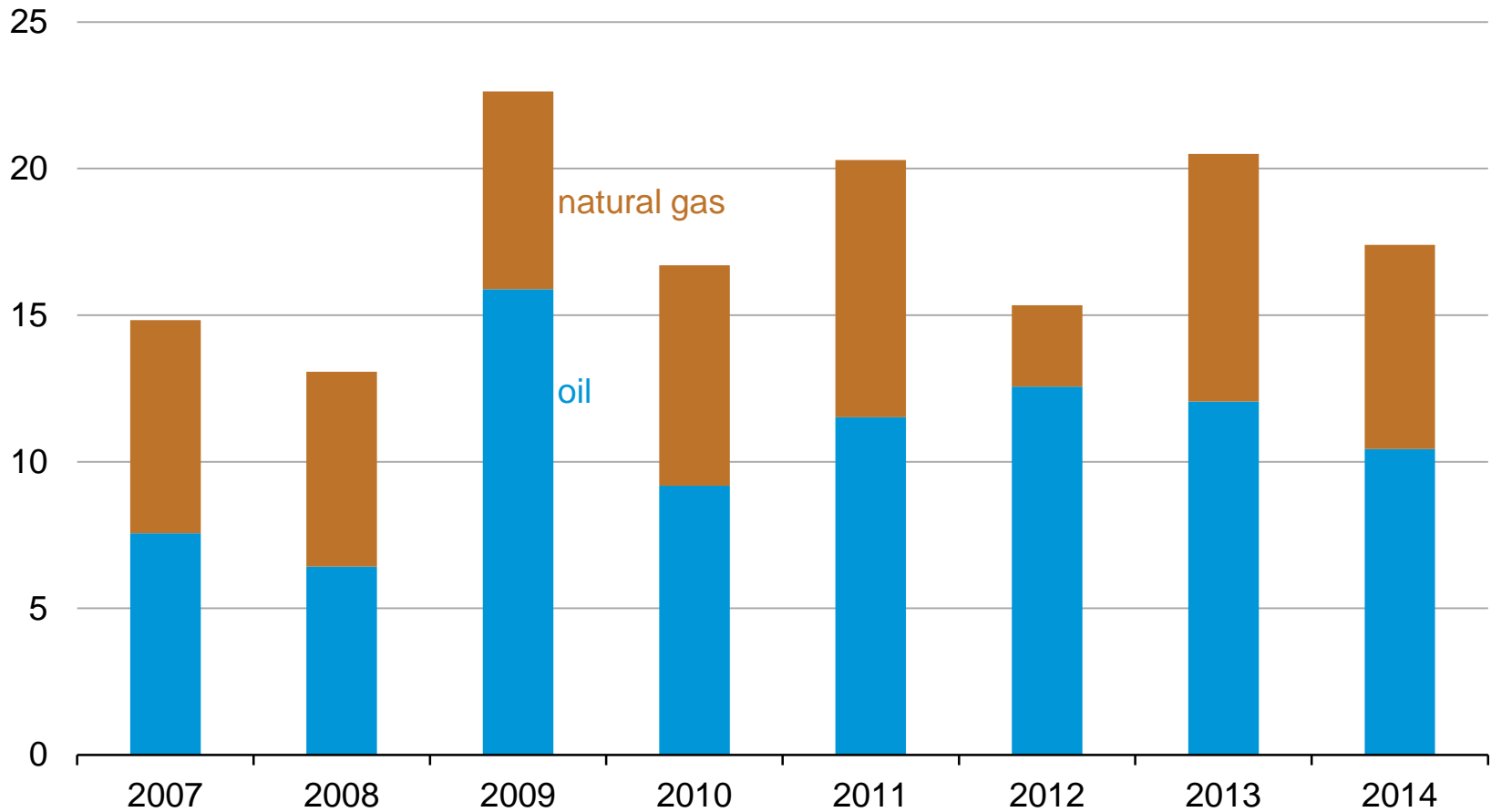


Source: U.S. Energy Information Administration, Evaluate Energy



# Oil reserve additions in 2014 were the lowest since 2010

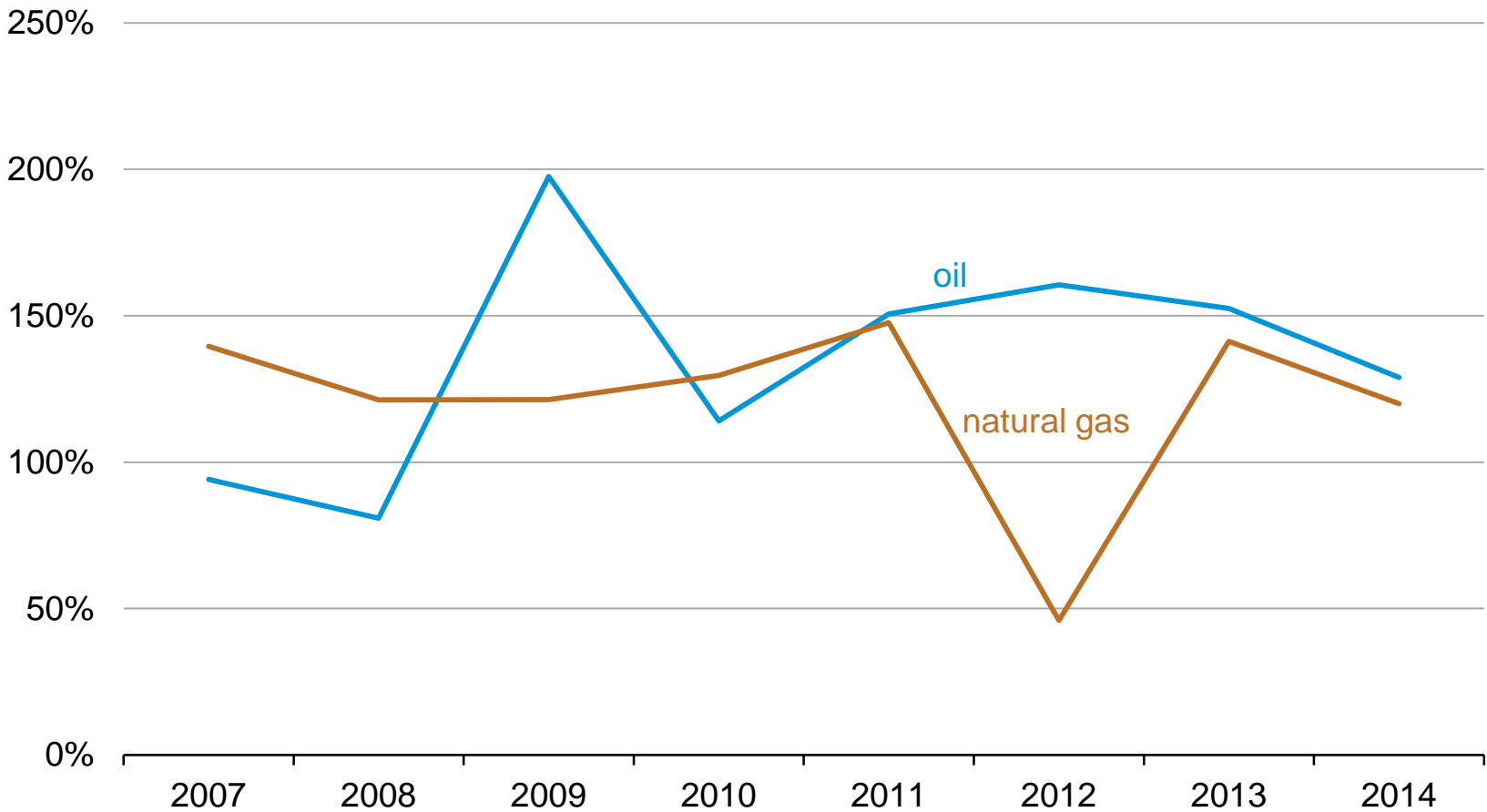
Reserve additions  
billion barrels of oil equivalent



Source: U.S. Energy Information Administration, Evaluate Energy

# Reserve additions were above annual production for oil and gas

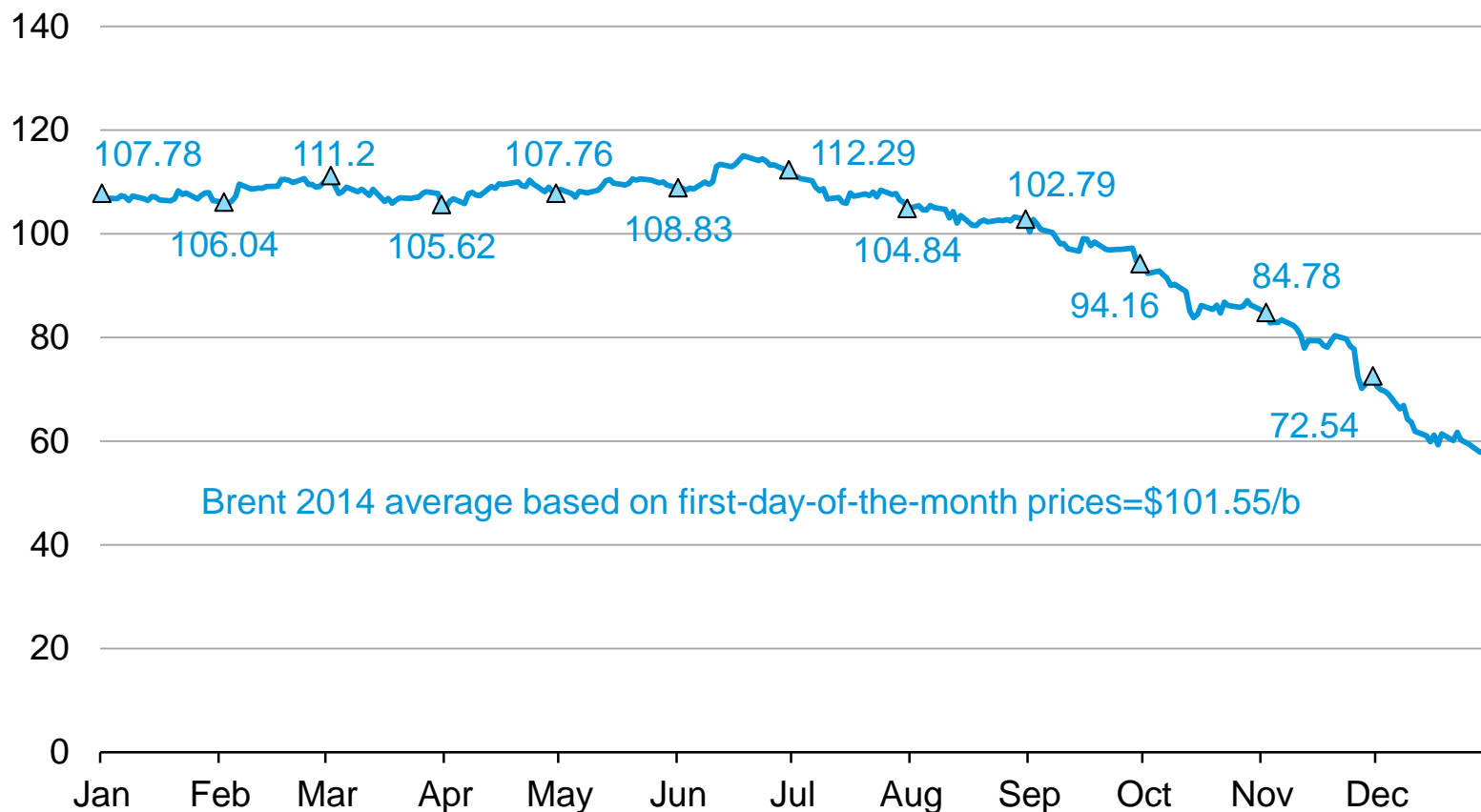
reserve replacement rate



Source: U.S. Energy Information Administration, Evaluate Energy

# The SEC requires companies to value proved reserves on an average of the prices on the first day of each month

\$/barrel

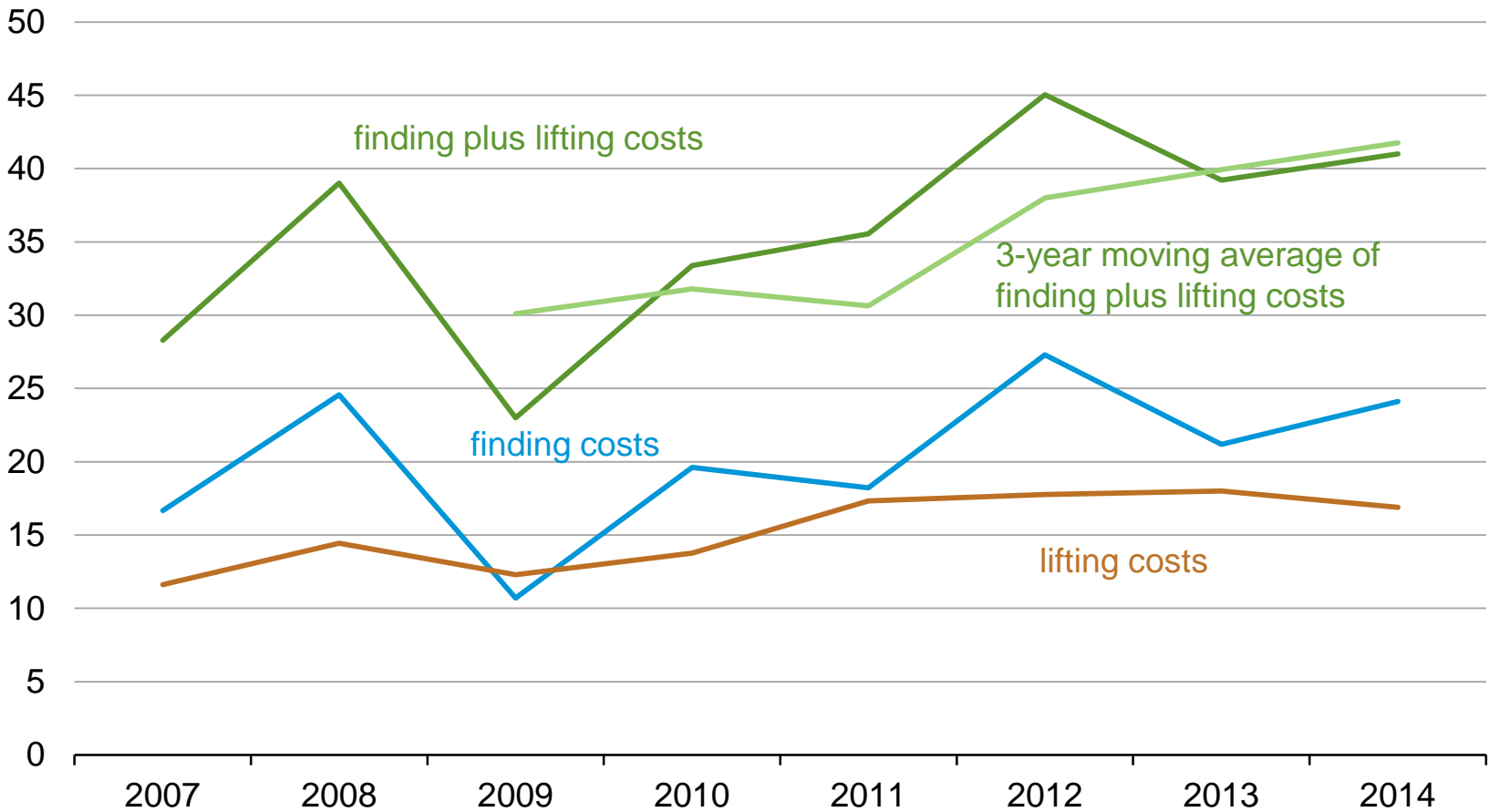


Source: U.S. Energy Information Administration, based on Evaluate Energy, Bloomberg, L.P.

Note: SEC stands for the U.S. Securities and Exchange Commission. b=barrel

# Finding costs increased in 2014 while lifting costs fell

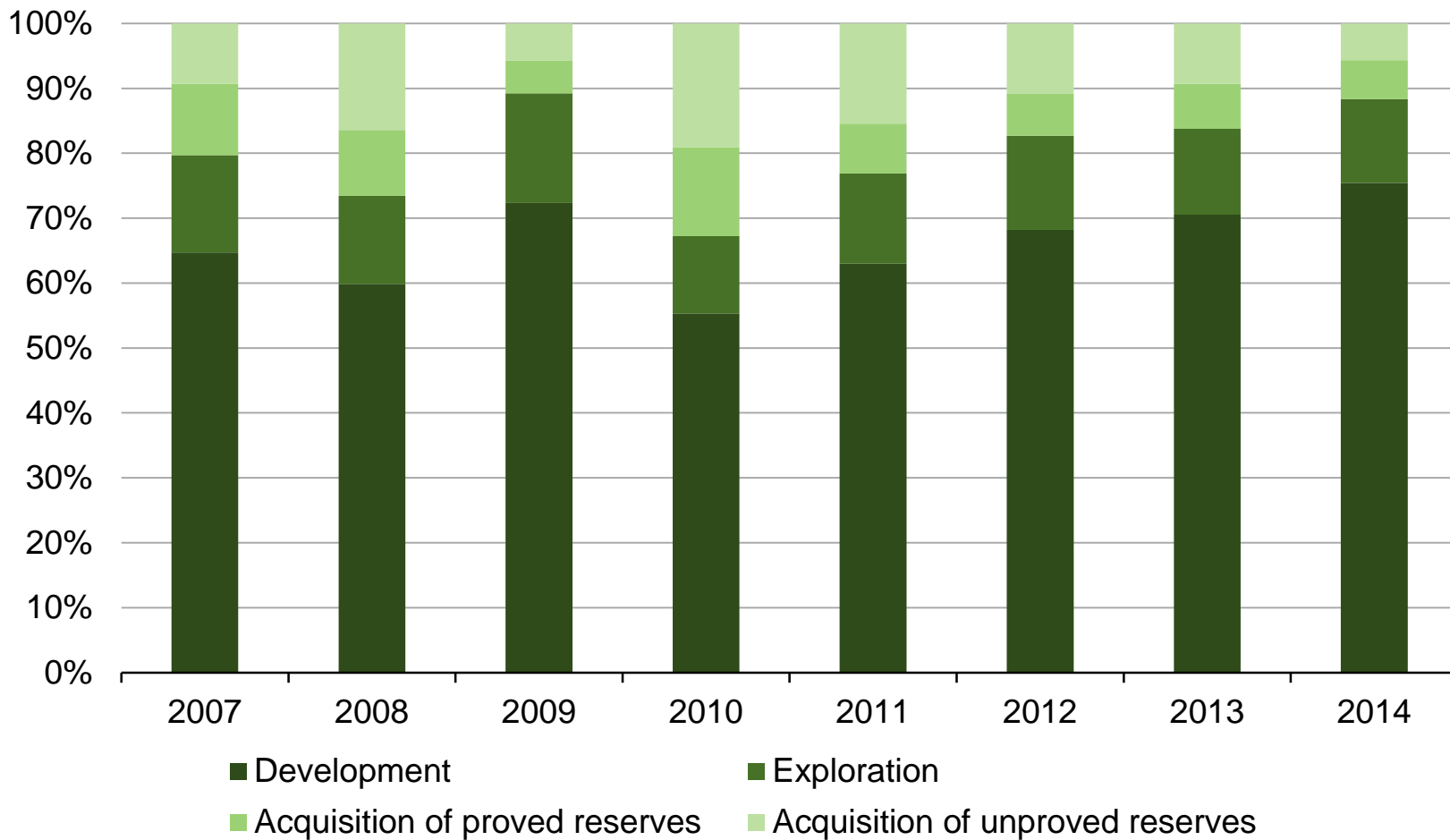
2014 \$/barrels of oil equivalent



Source: U.S. Energy Information Administration, Evaluate Energy

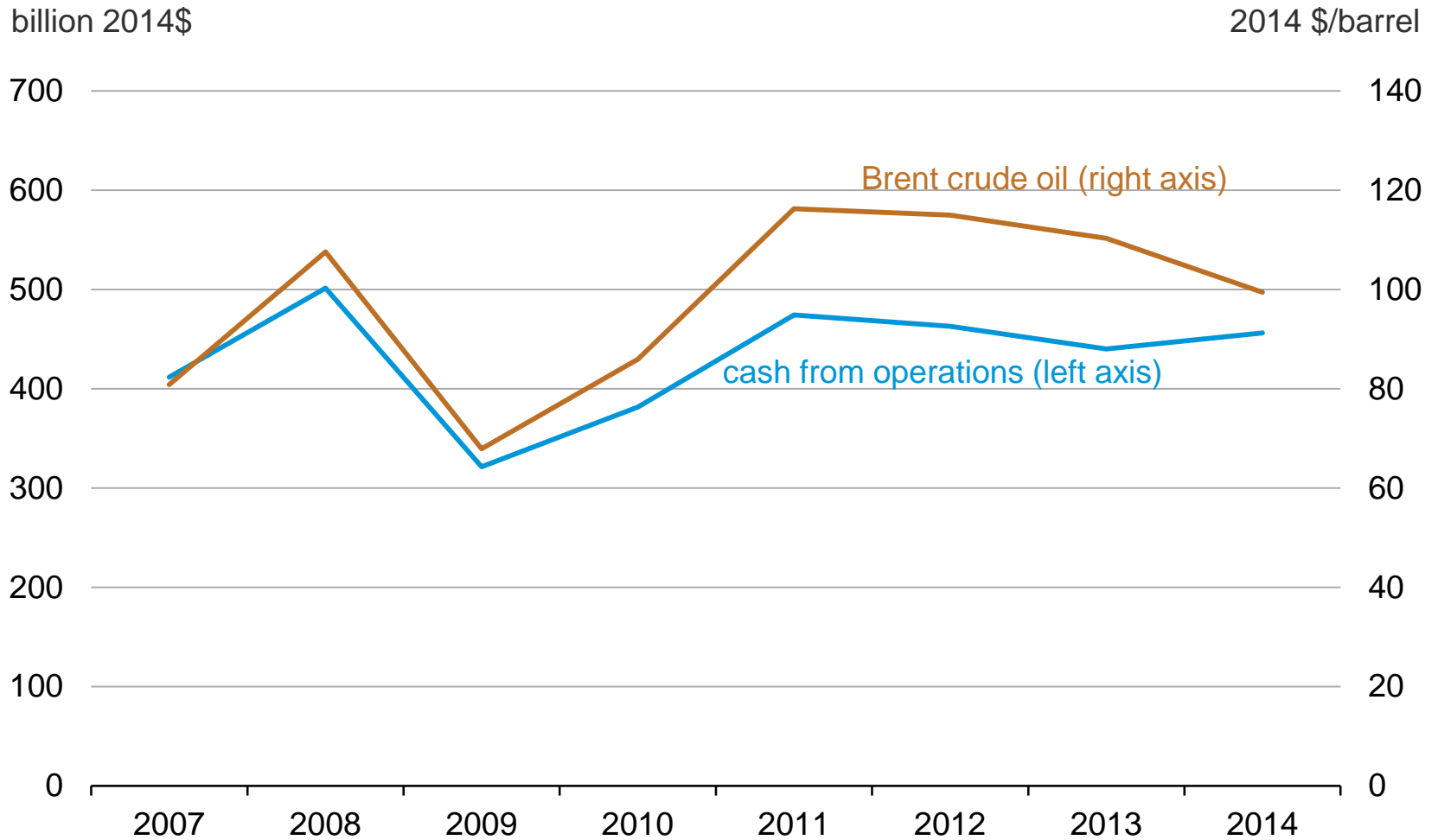
# Exploration and development expenditures were more than 80% of total costs incurred for the third consecutive year

Share of costs incurred



Source: U.S. Energy Information Administration, Evaluate Energy

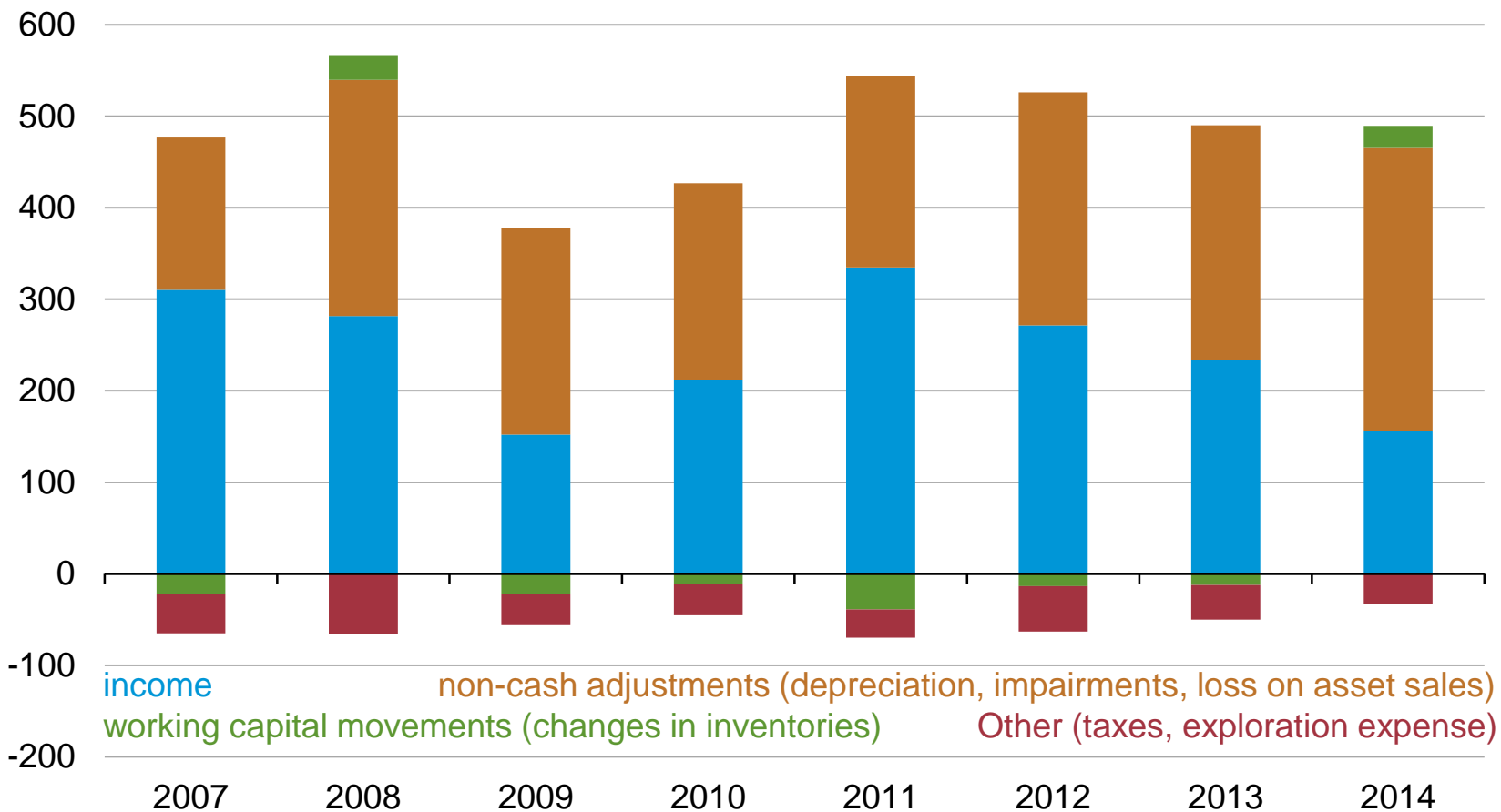
# Cash from operations was \$16 billion above the 2013 level



Source: U.S. Energy Information Administration, Evaluate Energy

# Cash from operations: non-cash adjustments and working capital movements offset the lowest income level since 2009

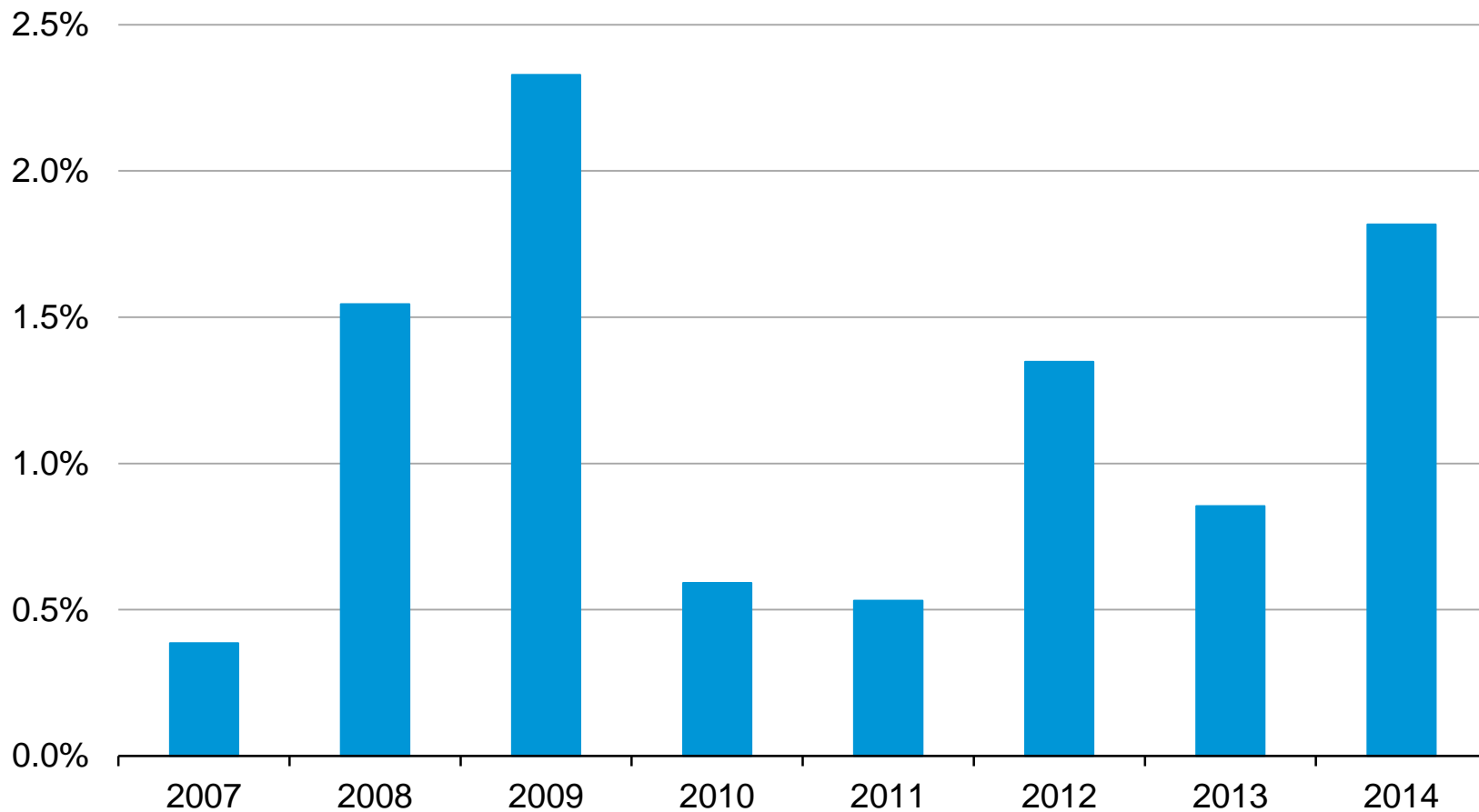
billion 2014\$



Source: U.S. Energy Information Administration, Evaluate Energy

# Asset impairments as a share of revenue were the highest since 2009

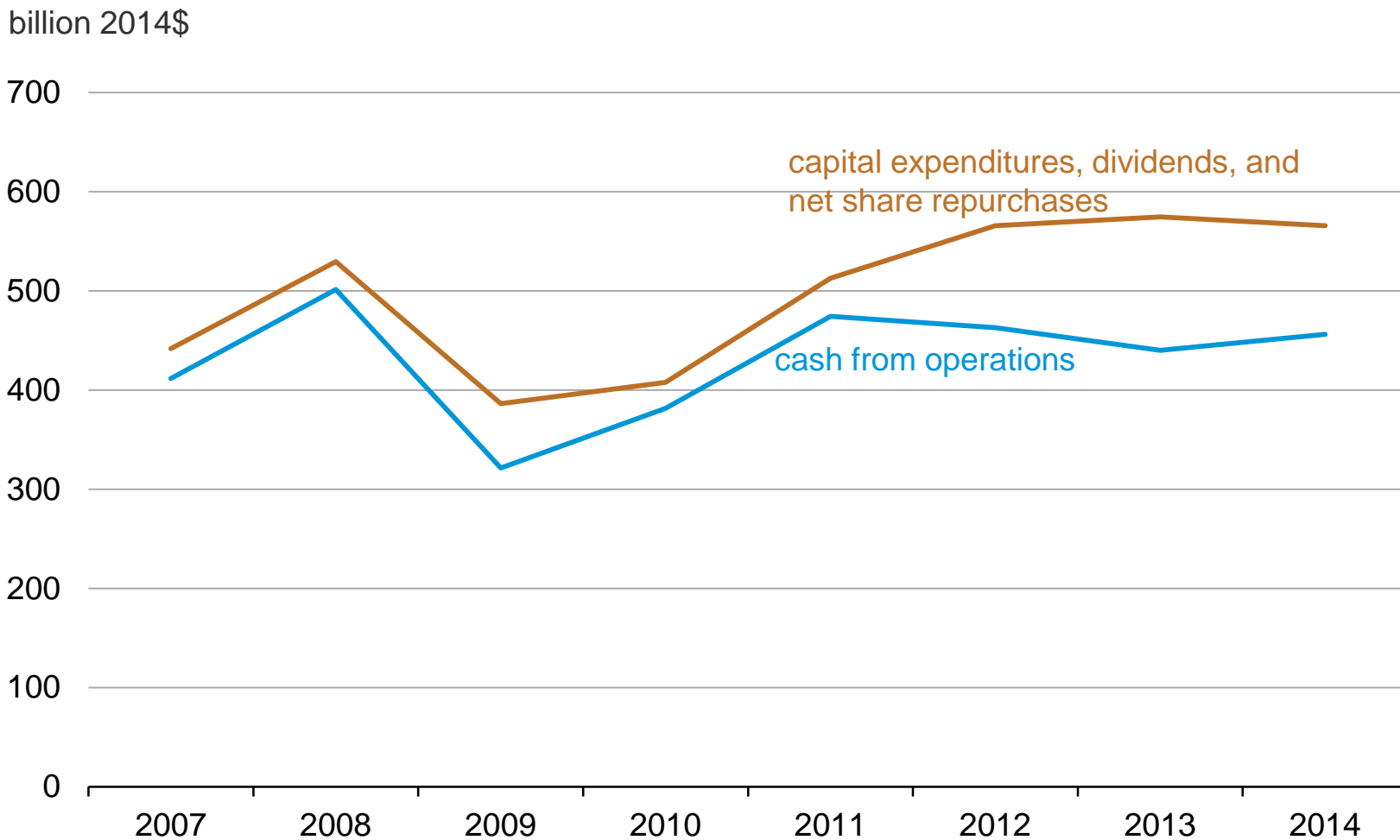
Impairment ratio to revenue



Source: U.S. Energy Information Administration, Evaluate Energy

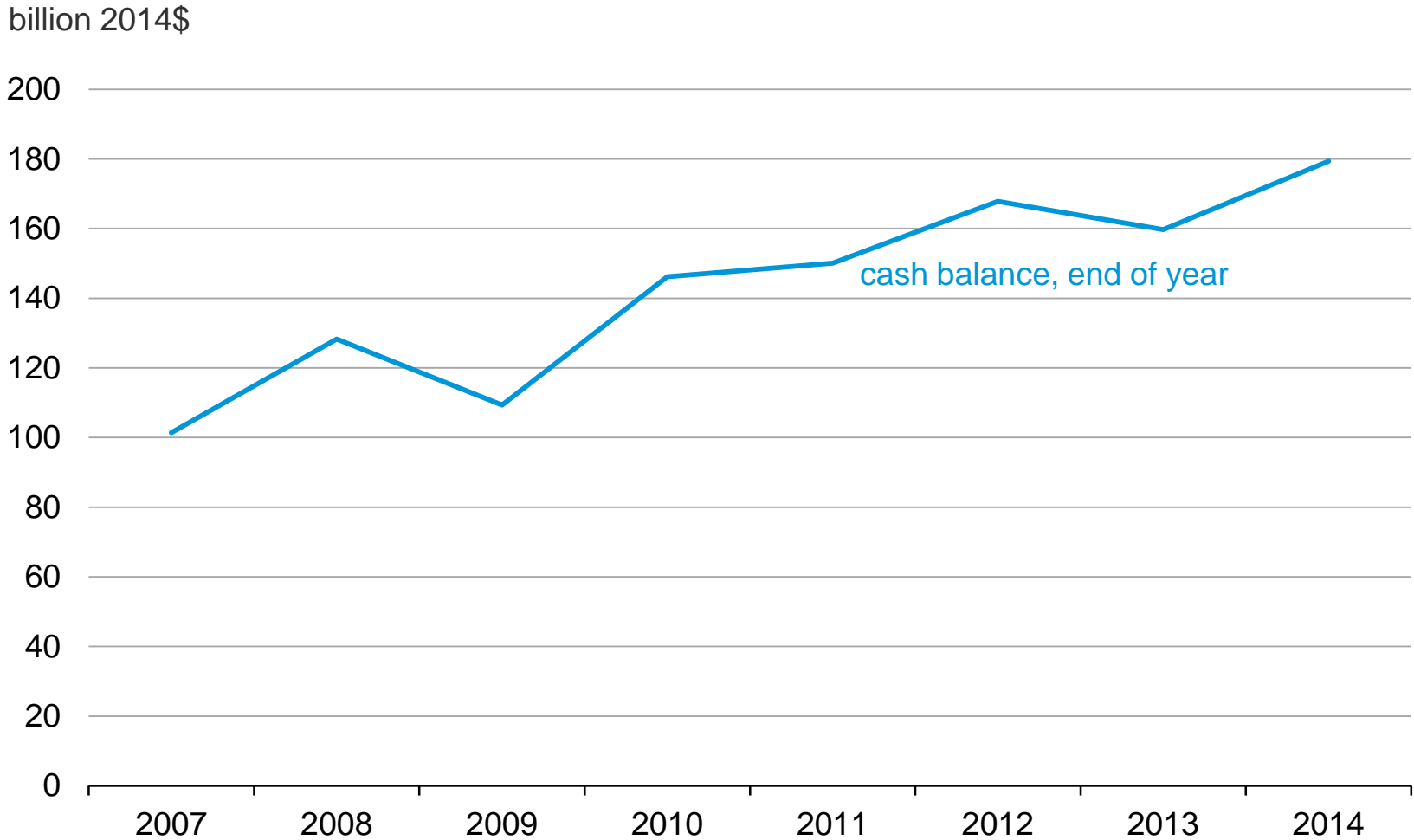


# Capital expenditures, dividends, and net share repurchases were \$110 billion higher than cash from operations in 2014



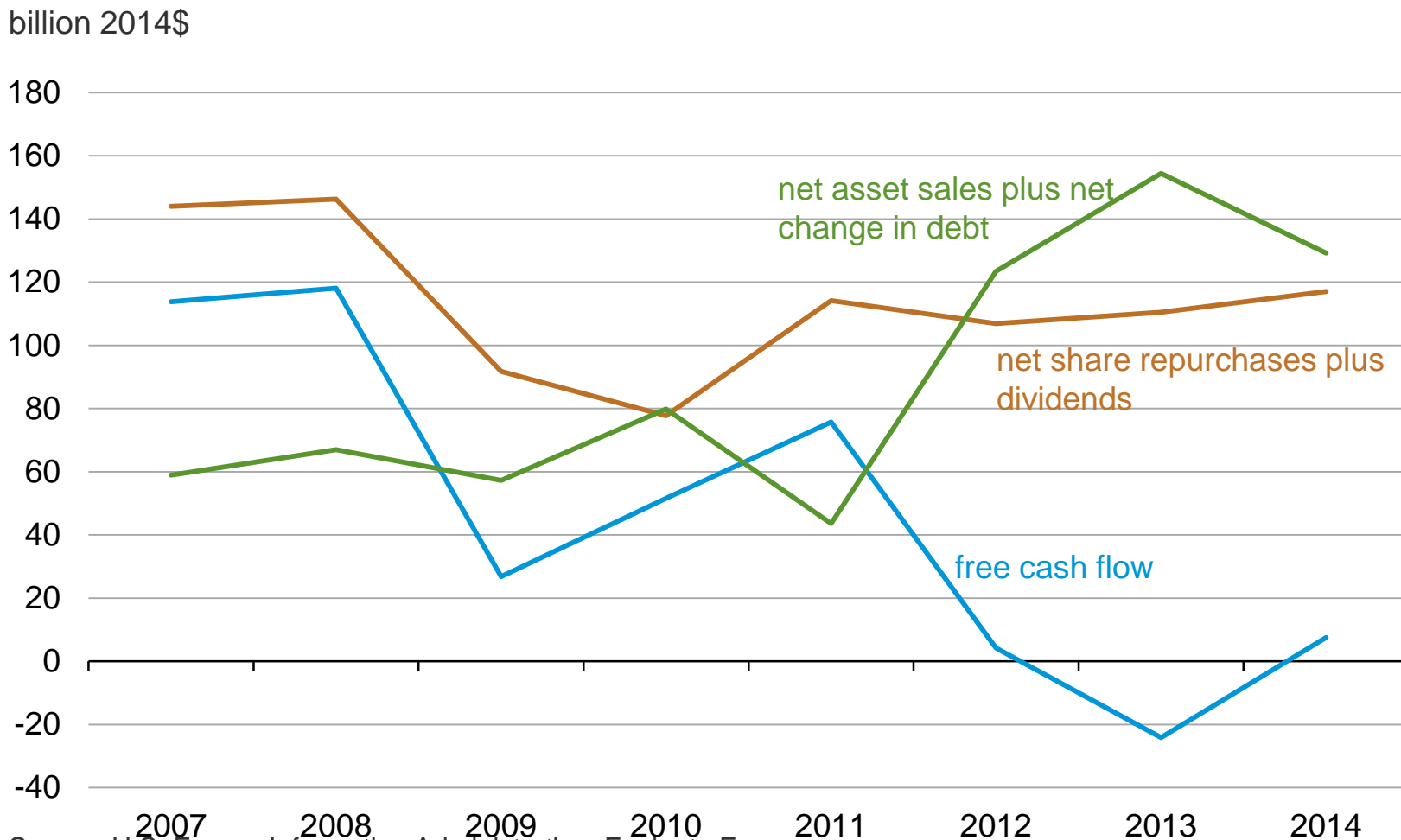
Source: U.S. Energy Information Administration, Evaluate Energy

# Cash balances have increased as total sources of cash have grown faster than cash uses



Source: U.S. Energy Information Administration, Evaluate Energy

# Companies sold assets and increased debt to maintain dividends and share repurchases

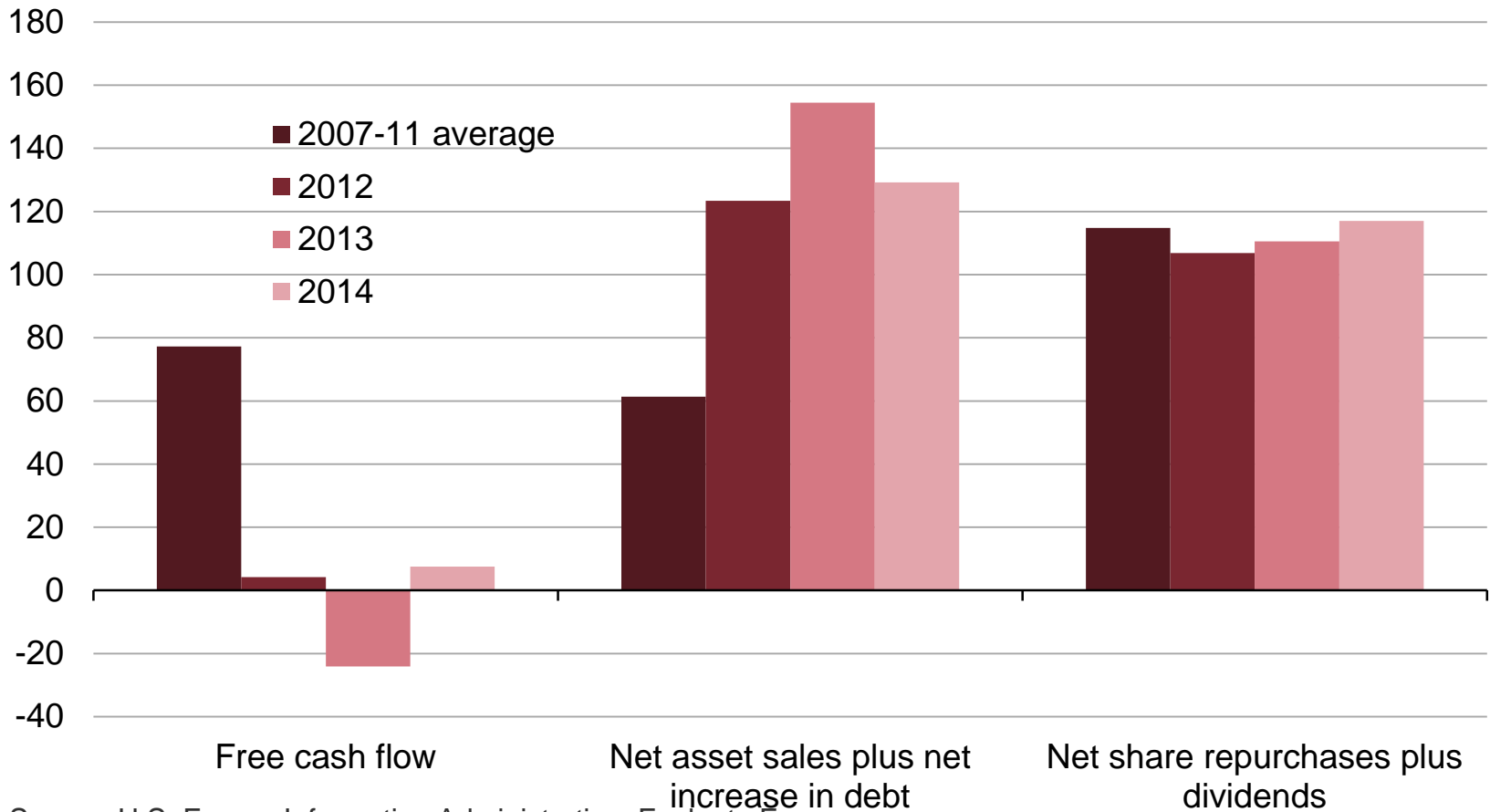


Source: U.S. Energy Information Administration, Evaluate Energy

Note: free cash flow=cash from operations less capital expenditures

# Changing sources and uses of cash

billion 2014\$

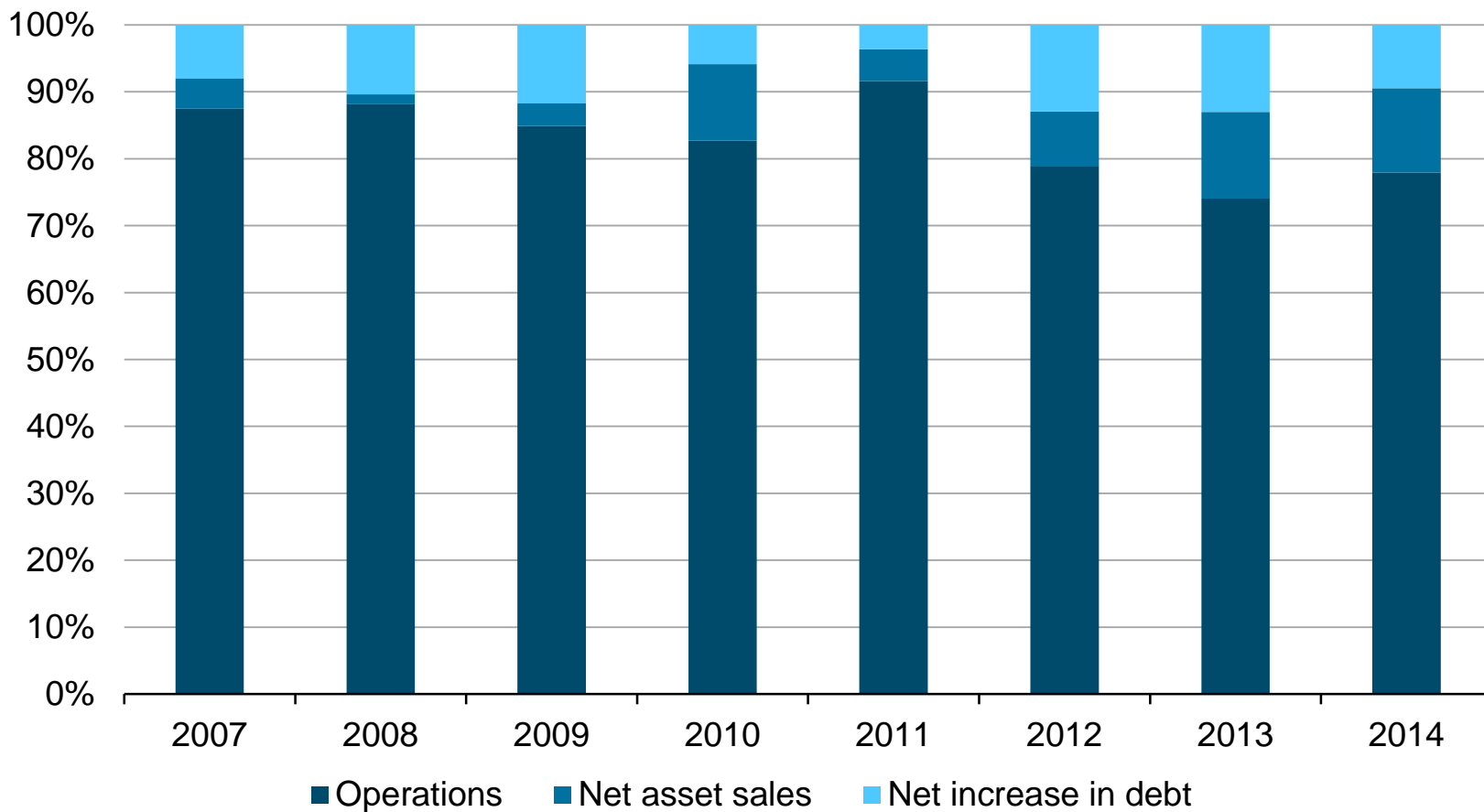


Source: U.S. Energy Information Administration, Evaluate Energy

Note: free cash flow=cash from operations less capital expenditures

# Cash from operations made up less than 80% of cash sources for the third consecutive year

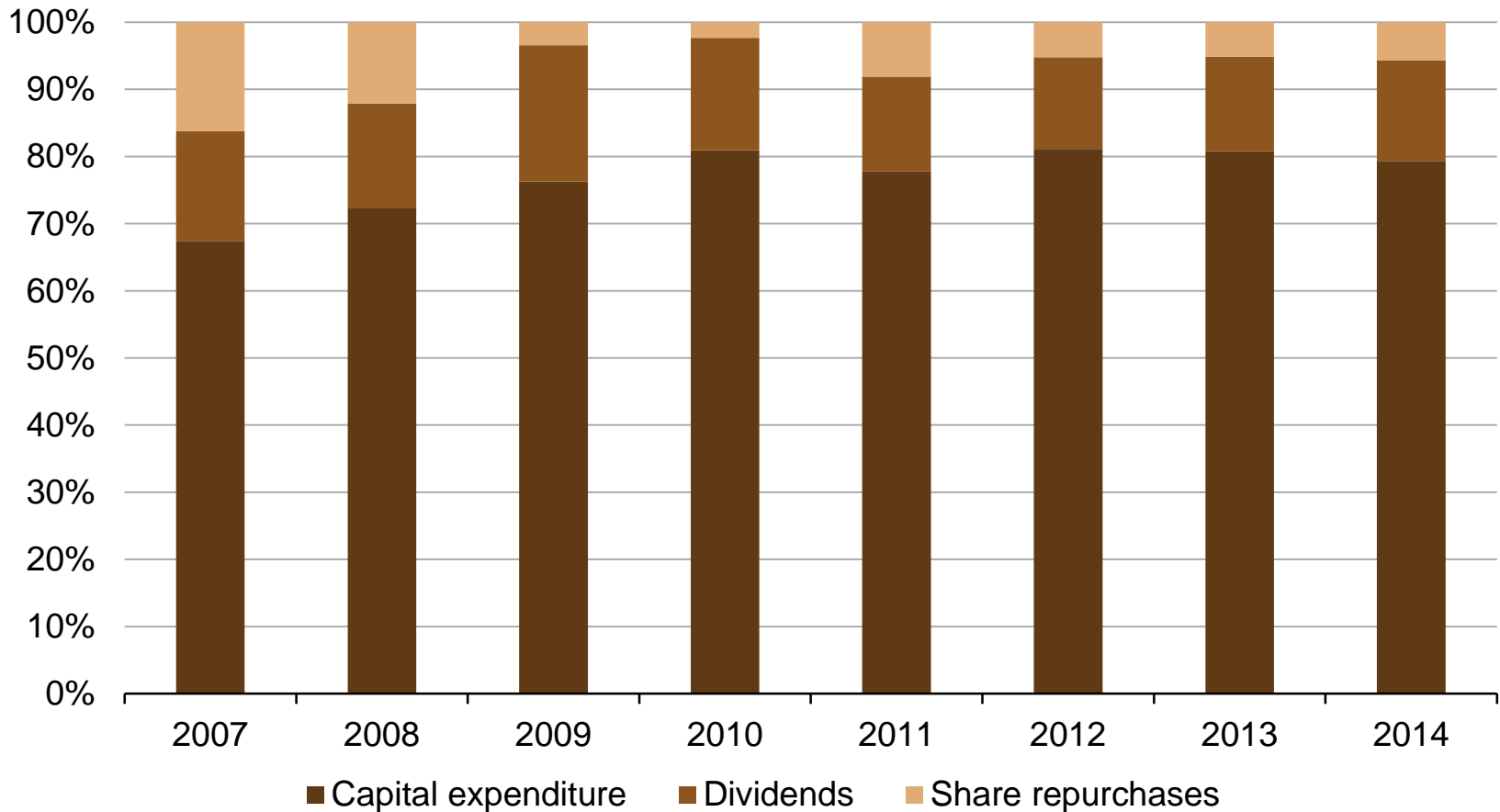
## Sources of cash



Source: U.S. Energy Information Administration, Evaluate Energy

# Capital expenditure remained about 80% of uses of cash—fairly steady since 2010

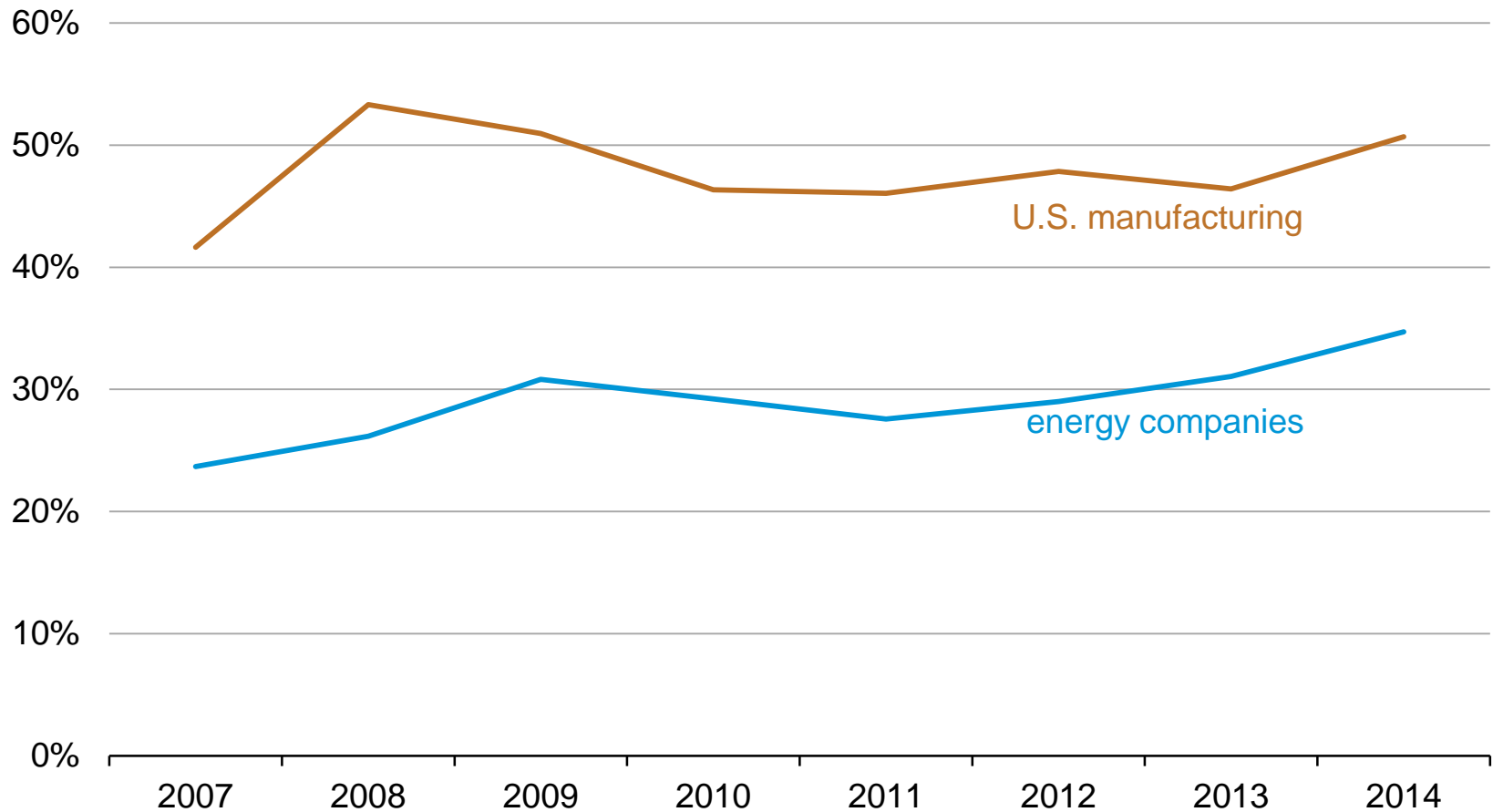
Uses of cash



Source: U.S. Energy Information Administration, Evaluate Energy

# Energy companies' long-term debt to shareholders' equity ratio increased four percentage points from the 2013 level

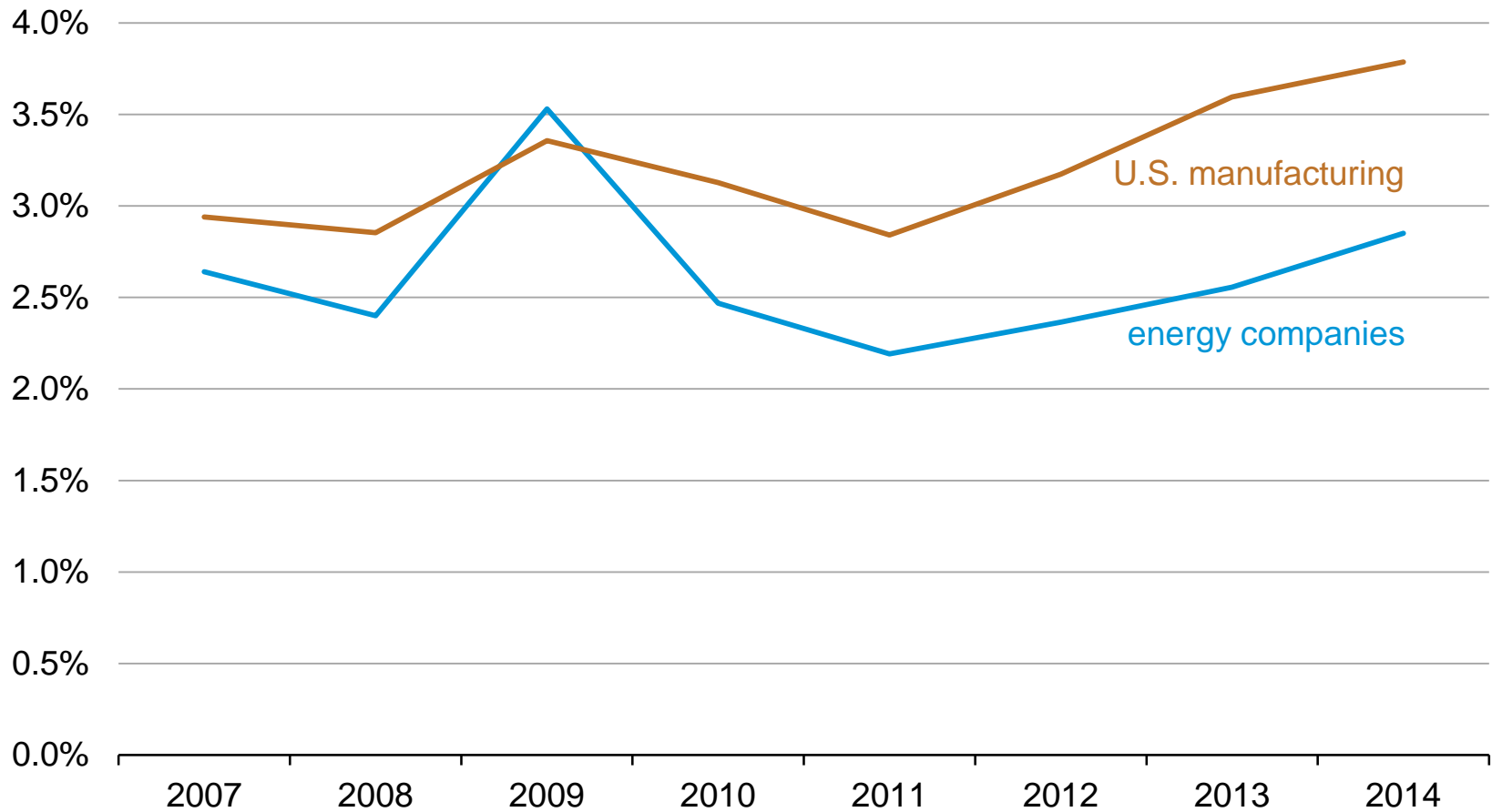
Long-term debt to equity



Source: U.S. Energy Information Administration, Evaluate Energy, U.S. Census Bureau

# U.S. manufacturing companies and the energy companies increased dividends as a share of revenue in recent years

Dividend share of revenue

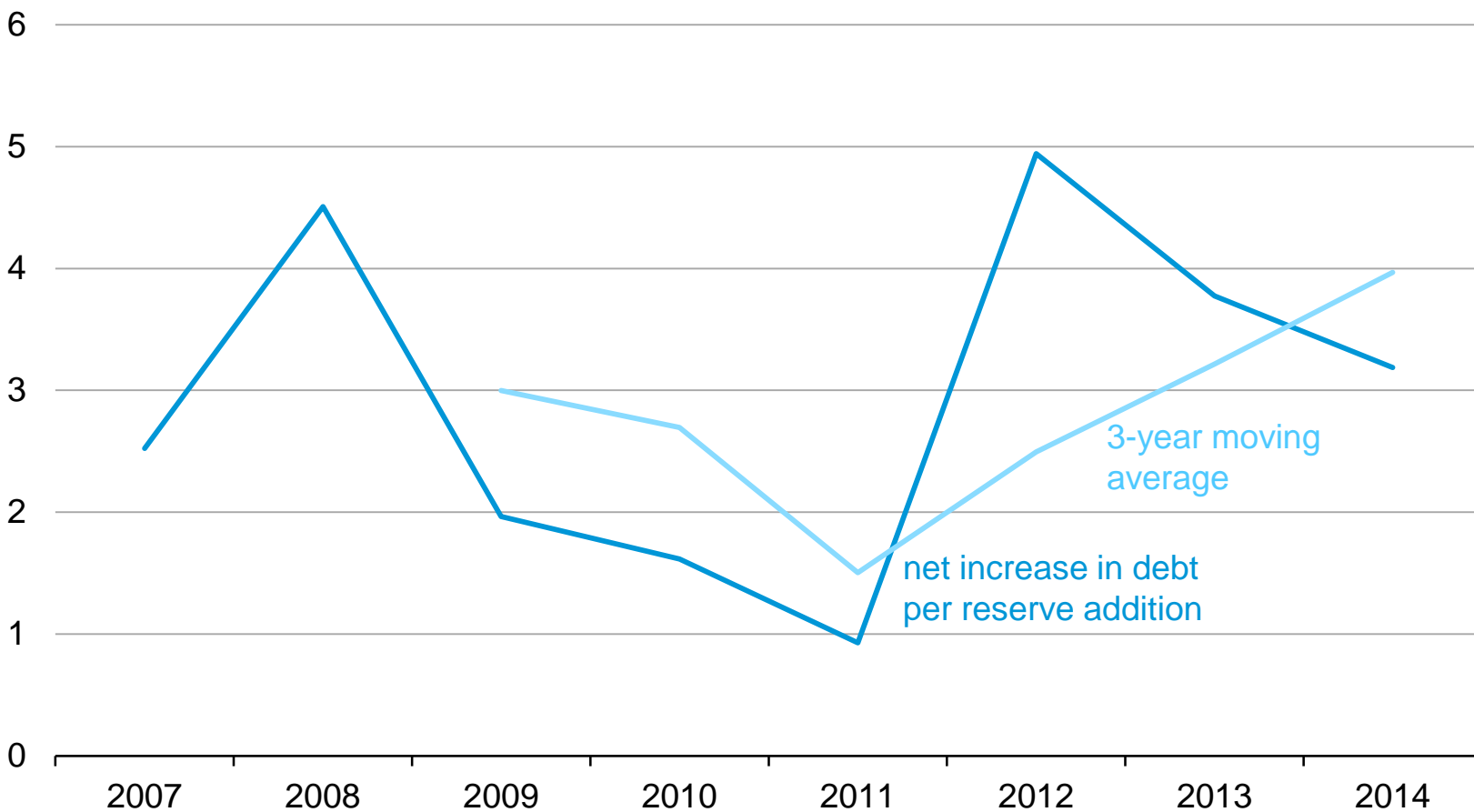


Source: U.S. Energy Information Administration, Evaluate Energy, U.S. Census Bureau



# Four dollars of new debt paid for a proved reserve barrel, on average, in 2012-14

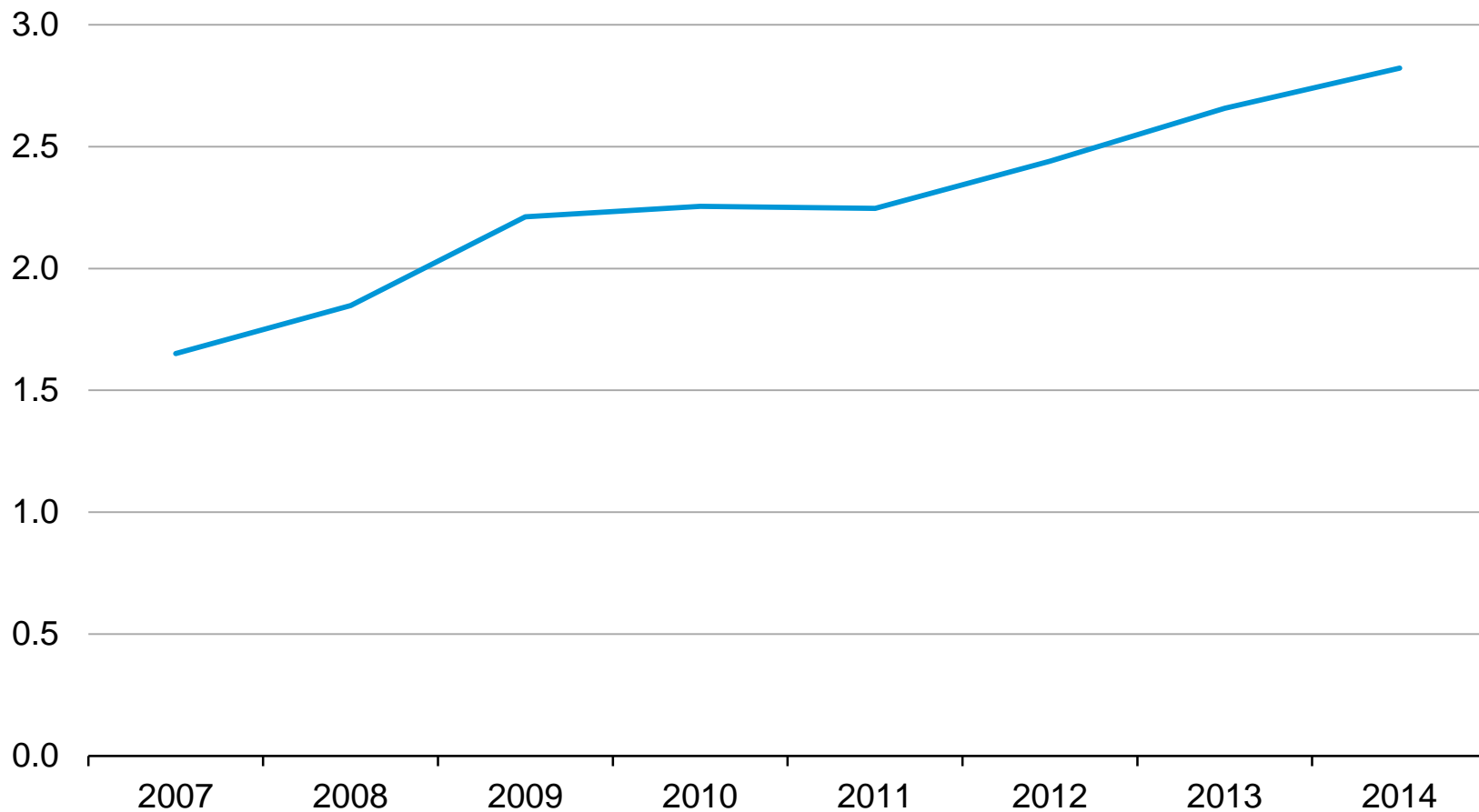
2014 \$/barrels of oil equivalent



Source: U.S. Energy Information Administration, Evaluate Energy

# The energy companies had \$2.80 of long-term debt for every barrel of proved reserves to end 2014

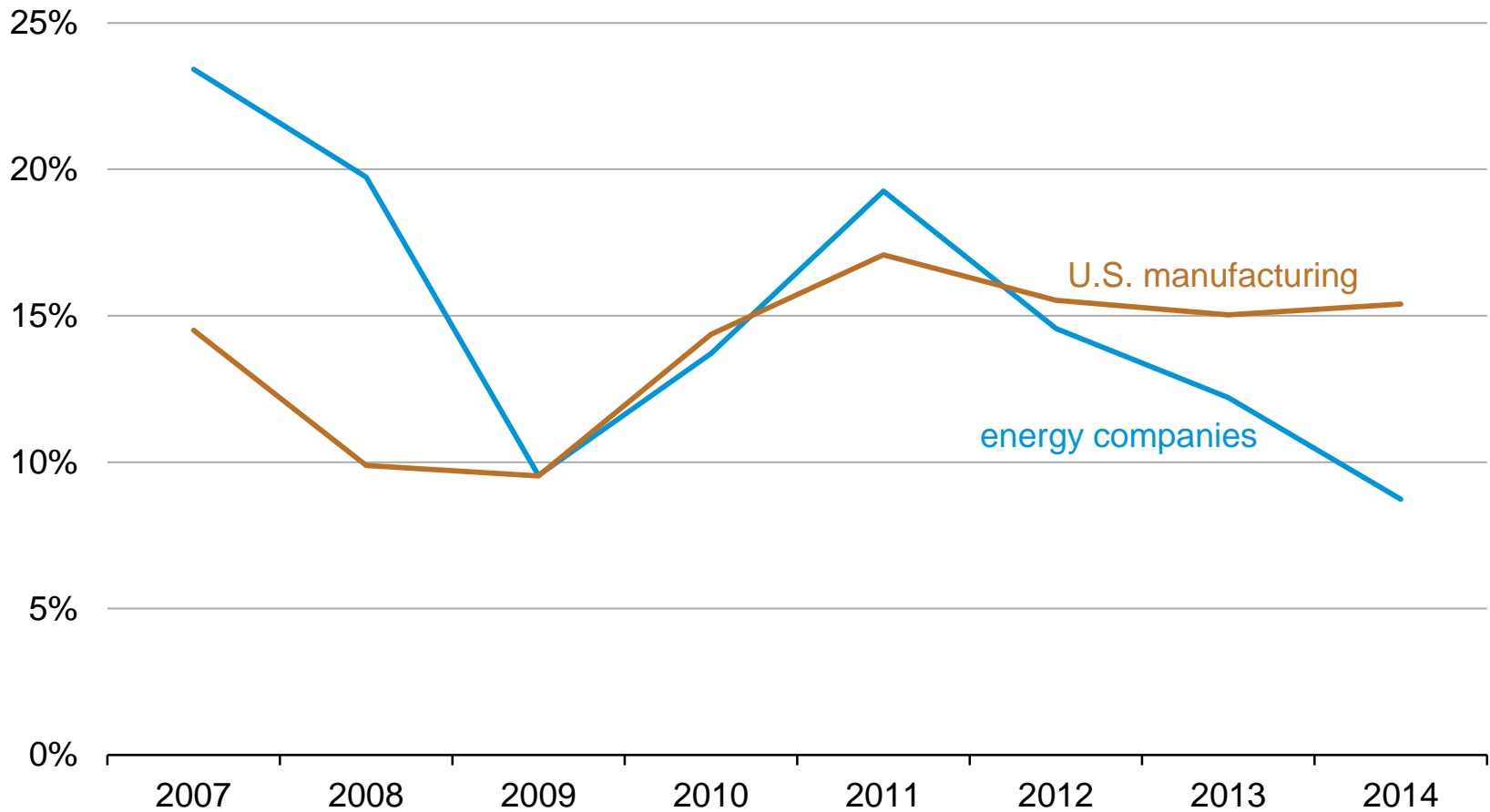
Ratio of long-term debt to proved reserves  
2014 \$/barrels of oil equivalent



Source: U.S. Energy Information Administration, Evaluate Energy

# Returns to shareholders were the lowest since 2007

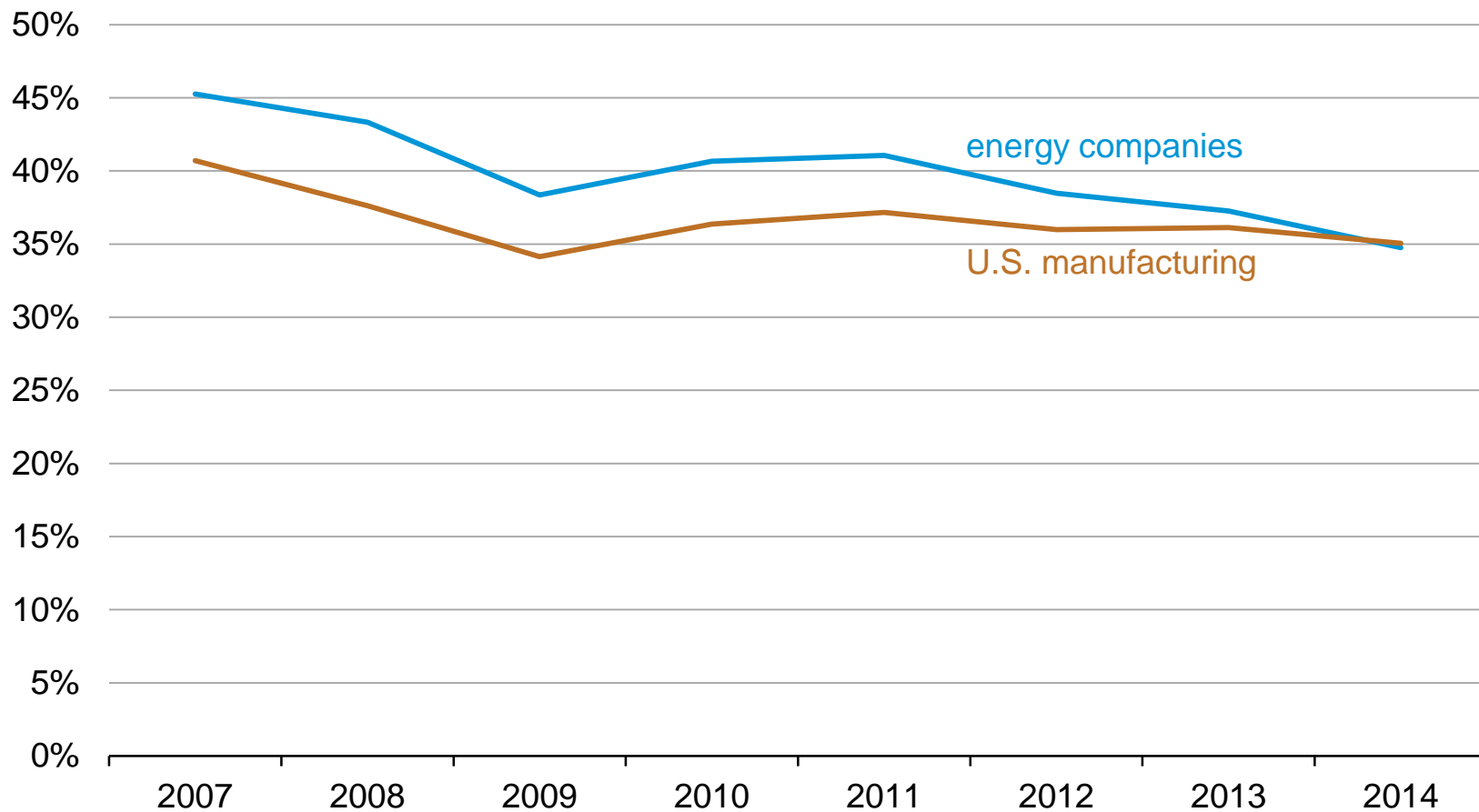
Return on equity



Source: U.S. Energy Information Administration, Evaluate Energy, U.S. Census Bureau

# Liabilities due within one year as a share of total liabilities fell ten percentage points since 2007 for the energy companies

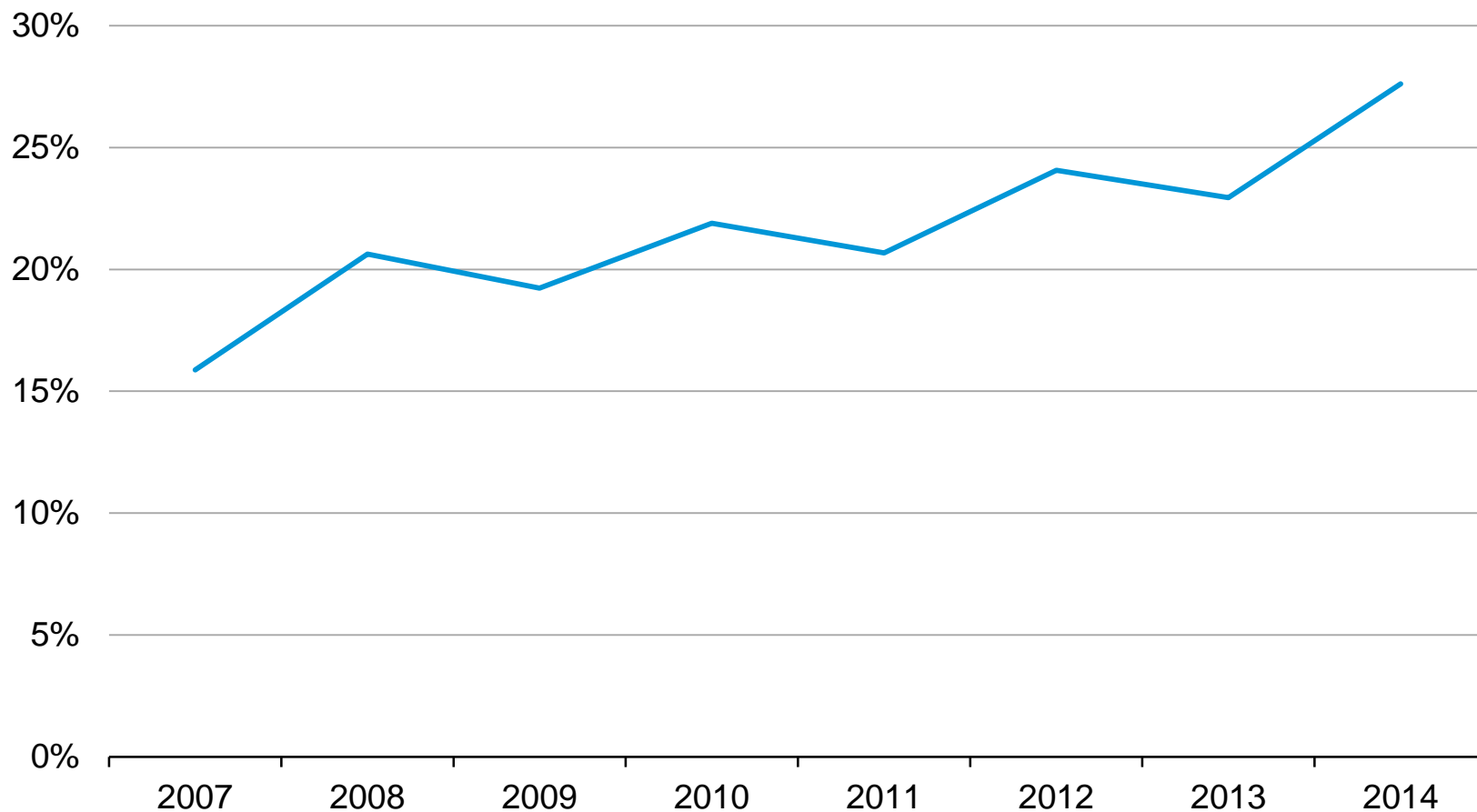
Ratio of current liabilities to total liabilities



Source: U.S. Energy Information Administration, Evaluate Energy, U.S. Census Bureau

# The energy companies increased liquid assets to 28 cents for every dollar of liabilities due within a year

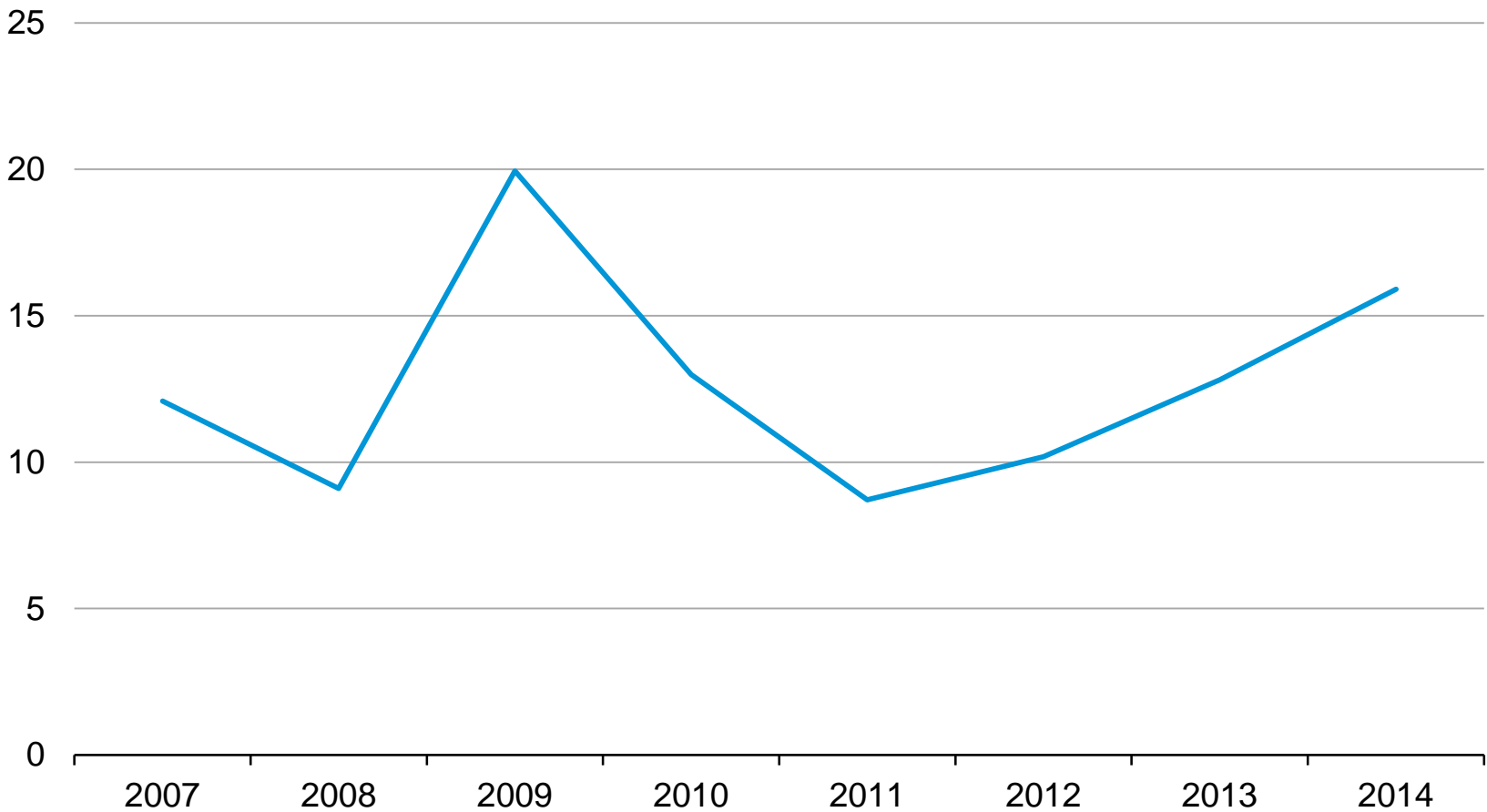
Ratio of cash to current liabilities



Source: U.S. Energy Information Administration, Evaluate Energy

# Market capitalization compared to net income increased as profits fell faster than share prices

Ratio of market capitalization to net income



Source: U.S. Energy Information Administration, Evaluate Energy

## Appendix: list of companies

<b>Anadarko Petroleum Corp.</b>	<b>EOG Resources</b>	<b>Parsley Energy Inc.</b>
<b>Apache Corporation</b>	<b>EPL Oil &amp; Gas Inc</b>	<b>PDC Energy</b>
<b>Apco Oil and Gas International Inc</b>	<b>ExxonMobil</b>	<b>Penn Virginia</b>
<b>Approach Resources Inc</b>	<b>Forest Oil Corporation</b>	<b>Petro-Canada</b>
<b>Athlon Energy Inc.</b>	<b>Freeport-McMoRan Inc.</b>	<b>Petrohawk Energy Corp</b>
<b>ATP Oil &amp; Gas Corp.</b>	<b>Gazprom Neft</b>	<b>Pioneer Natural Resources Company</b>
<b>Berry Petroleum Co.</b>	<b>Goodrich Petroleum Corp</b>	<b>Plains Exploration &amp; Production</b>
<b>BG Group</b>	<b>Gulfport Energy Corporation</b>	<b>QEP Resources Inc</b>
<b>BHP Billiton</b>	<b>Halcon Resources Corporation</b>	<b>Range Resources Corp</b>
<b>Bill Barrett Corporation</b>	<b>Hess Corp</b>	<b>Rosetta Resources Inc.</b>
<b>Black Hills Corp</b>	<b>Husky Energy Inc.</b>	<b>Royal Dutch Shell</b>
<b>BP</b>	<b>Imperial Oil Limited</b>	<b>Sanchez Energy Corp</b>
<b>Canacol Energy Ltd.</b>	<b>Kodiak Oil &amp; Gas Corp.</b>	<b>SandRidge Energy</b>
<b>Carrizo Oil &amp; Gas, Inc</b>	<b>Laredo Petroleum</b>	<b>Sinopec</b>
<b> Cenovus Energy Inc.</b>	<b>Linn Energy</b>	<b>SM Energy Company</b>
<b>Chesapeake Energy Corp.</b>	<b>Lukoil (US GAAP)</b>	<b>Sonde Resources Corp.</b>
<b>Chevron</b>	<b>Magnum Hunter Resources</b>	<b>Statoil ASA</b>
<b>Cimarex Energy Co.</b>	<b>Marathon Oil Corp.</b>	<b>Stone Energy</b>
<b>Clayton Williams Energy</b>	<b>Mariner Energy</b>	<b>Suncor Energy Inc.</b>
<b>Comstock Resources</b>	<b>McMoRan Exploration Co.</b>	<b>Swift Energy Co</b>
<b>Concho Resources Inc</b>	<b>MDU Resources Group</b>	<b>Synergy Resources Corporation</b>
<b>ConocoPhillips</b>	<b>Murphy Oil Corporation</b>	<b>Total</b>
<b>Continental Resources</b>	<b>Newfield Exploration Company</b>	<b>Triangle Petroleum Corporation</b>
<b>Denbury Resources Inc.</b>	<b>Noble Energy</b>	<b>Unit Corp</b>
<b>Devon Energy Corporation</b>	<b>Northern Oil &amp; Gas, Inc</b>	<b>W &amp; T Offshore</b>
<b>Encana Corporation</b>	<b>Novatek</b>	<b>Whiting Petroleum Corporation</b>
<b>Energen Corp</b>	<b>Oasis Petroleum Inc.</b>	<b>WPX Energy</b>
<b>Energy XXI</b>	<b>Occidental</b>	<b>XTO</b>
<b>Enerplus Corporation</b>	<b>OMV</b>	<b>YPF Sociedad Anonima</b>
<b>ENI</b>	<b>Pacific Rubiales Energy Corp.</b>	

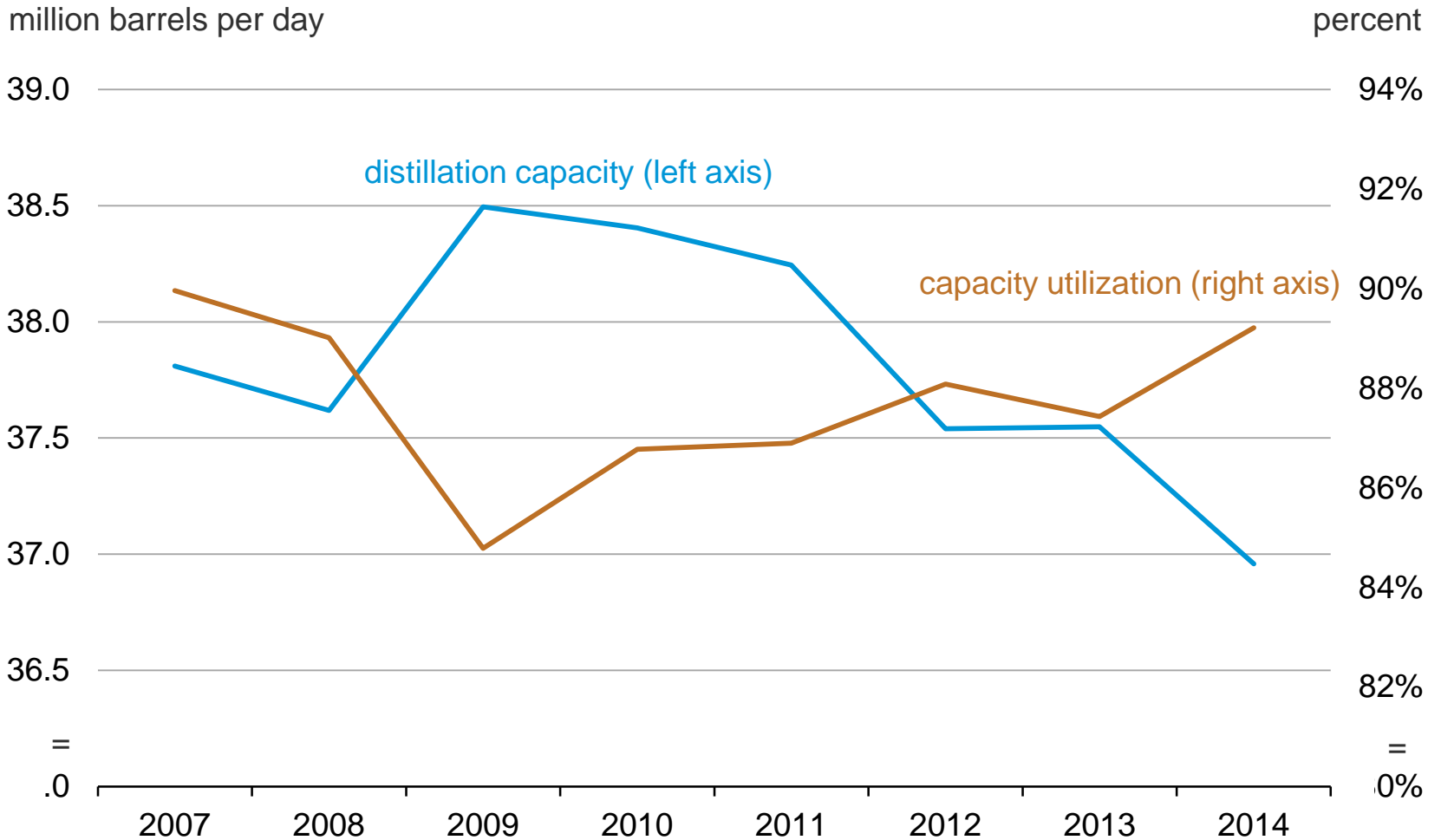
Source: U.S. Energy Information Administration, Evaluate Energy

Note: Some companies exist that merged or split before 2014. A total of 75 companies existed for 2014

# Refining



# Distillation capacity decreased, and utilization increased

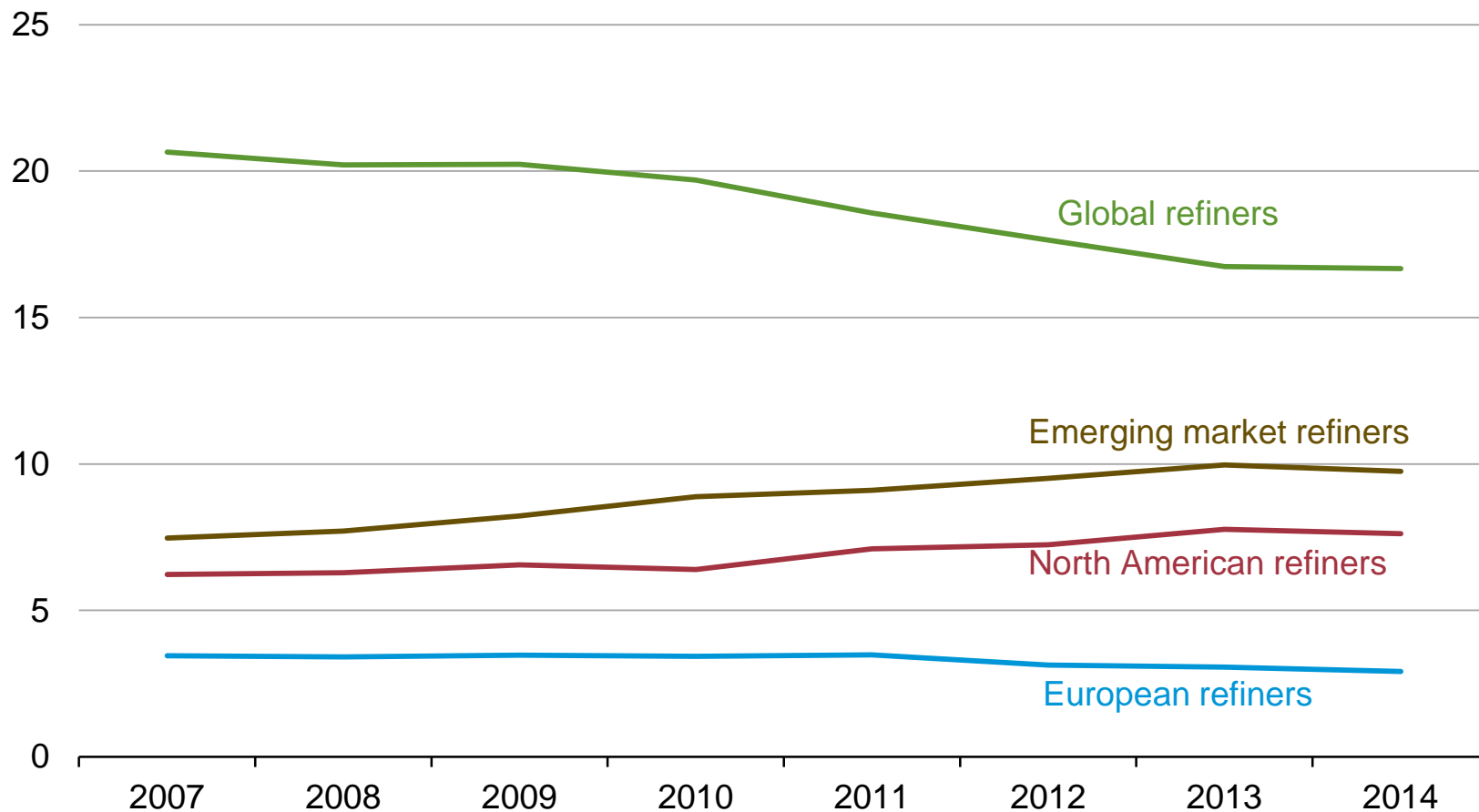


Source: U.S. Energy Information Administration, Evaluate Energy

Note: This chart includes 25 companies

# Refiners with assets around the globe had the largest reduction in distillation capacity

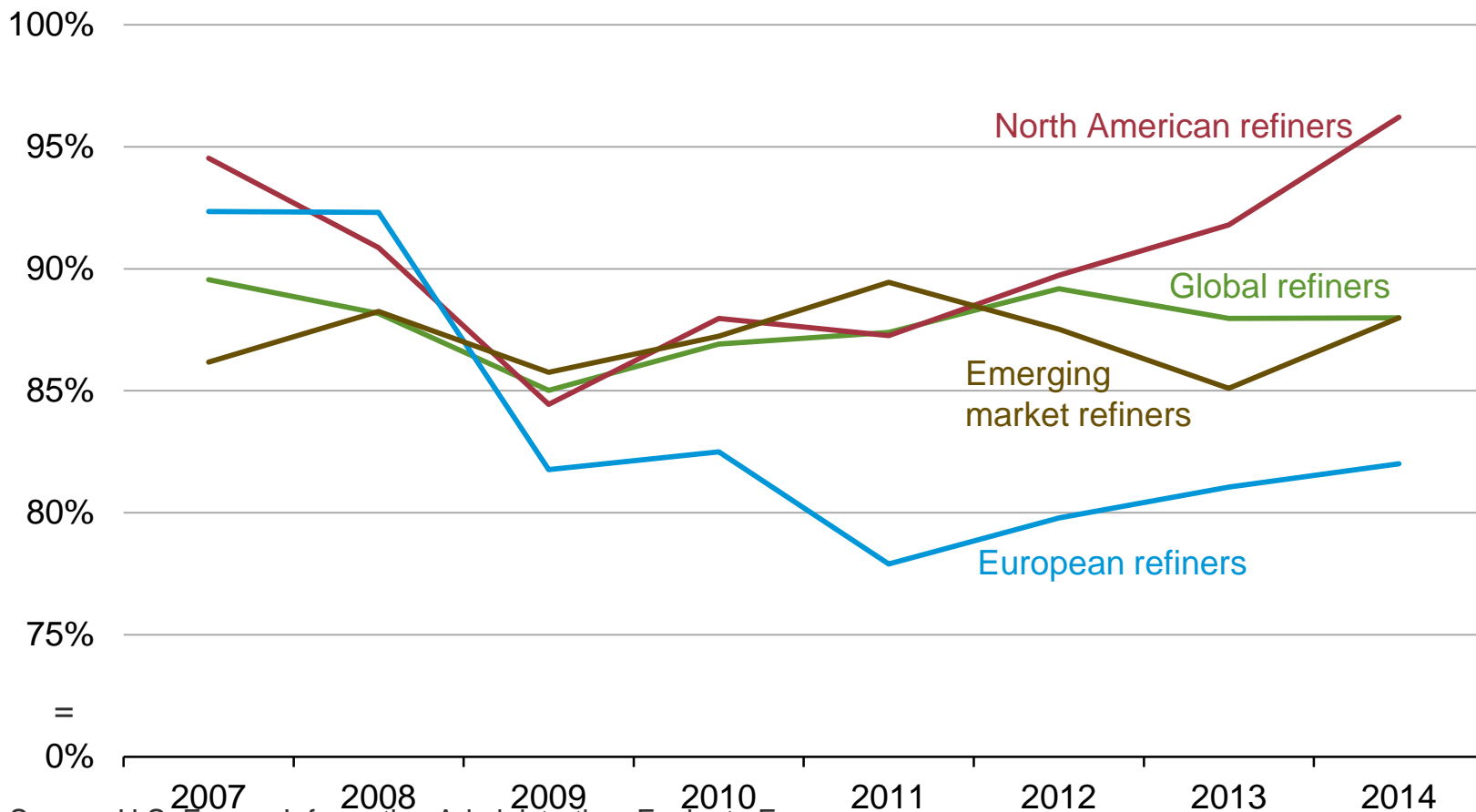
Distillation capacity by region  
million barrels per day



Source: U.S. Energy Information Administration, Evaluate Energy

Note: A global refiner is a company with refining assets in different regions. This chart includes 25 companies

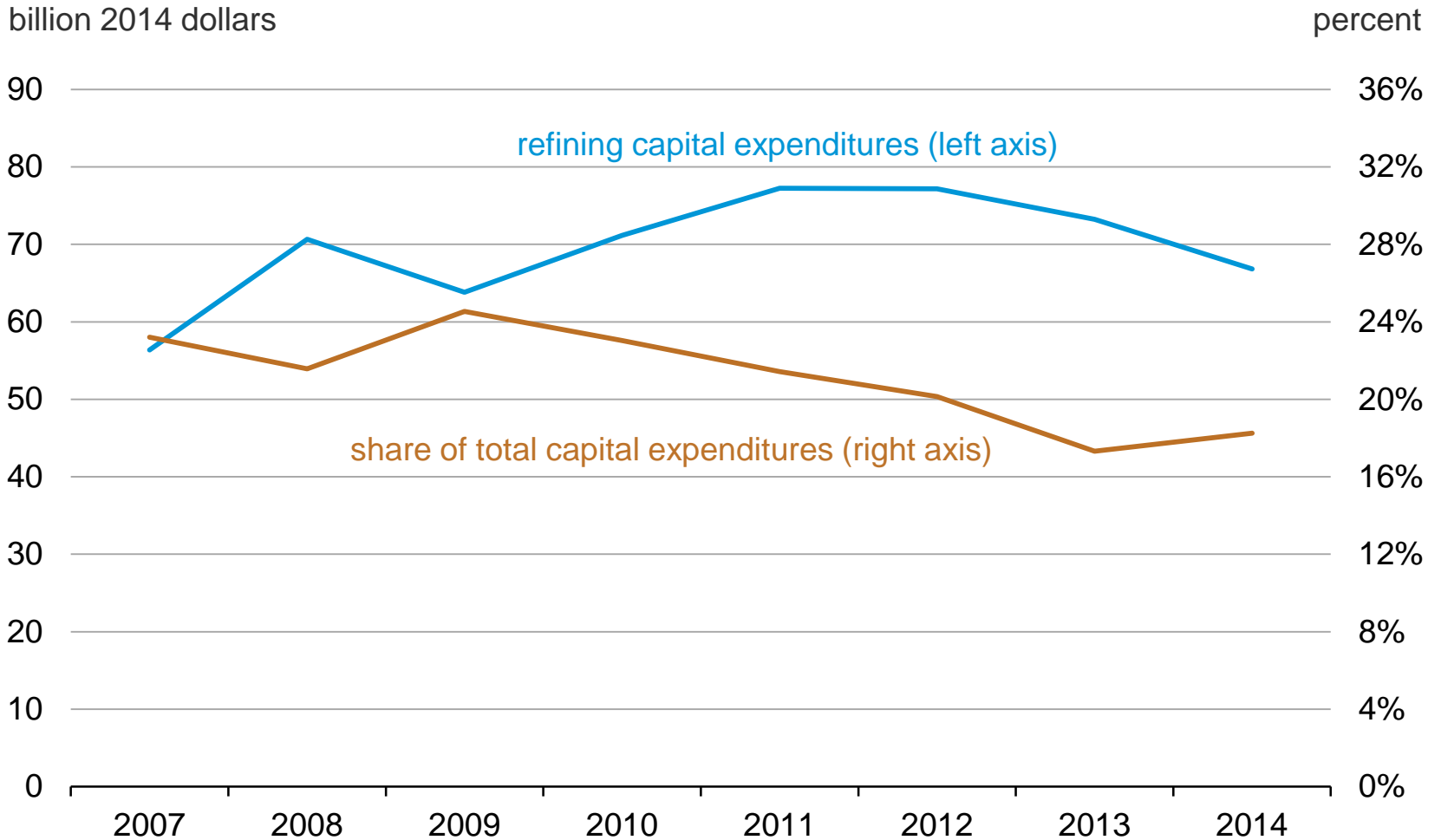
# North American refiners had the highest utilization for the third straight year



Source: U.S. Energy Information Administration, Evaluate Energy

Note: This chart includes 25 companies

# Refining capital expenditures declined, although they increased as a share of total capital expenditures



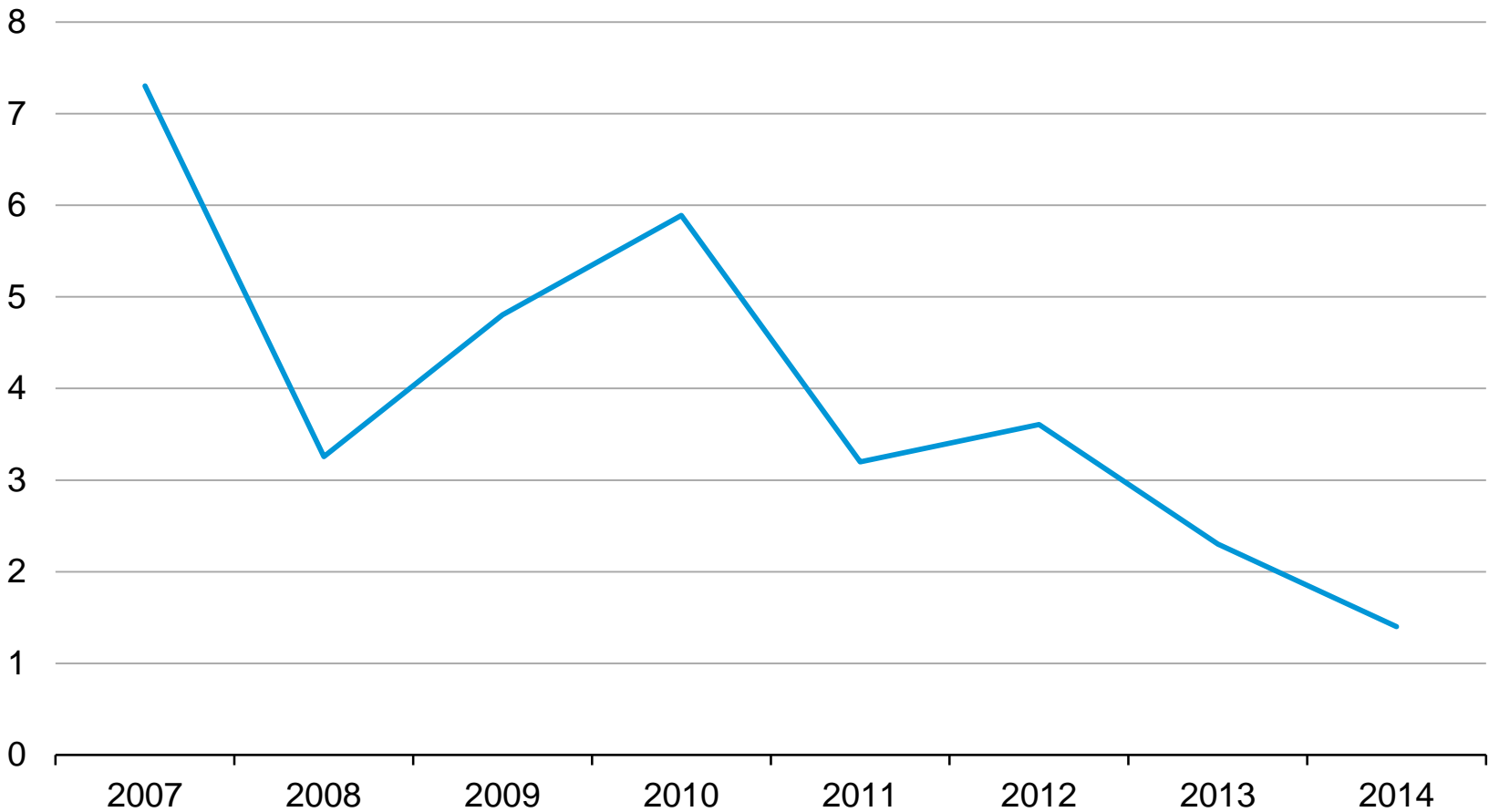
Source: U.S. Energy Information Administration, Evaluate Energy

Note: This chart includes 31 companies

# Refining earnings fell to the lowest since 2007

Ratio of refining earnings per barrel processed

2014 \$/b

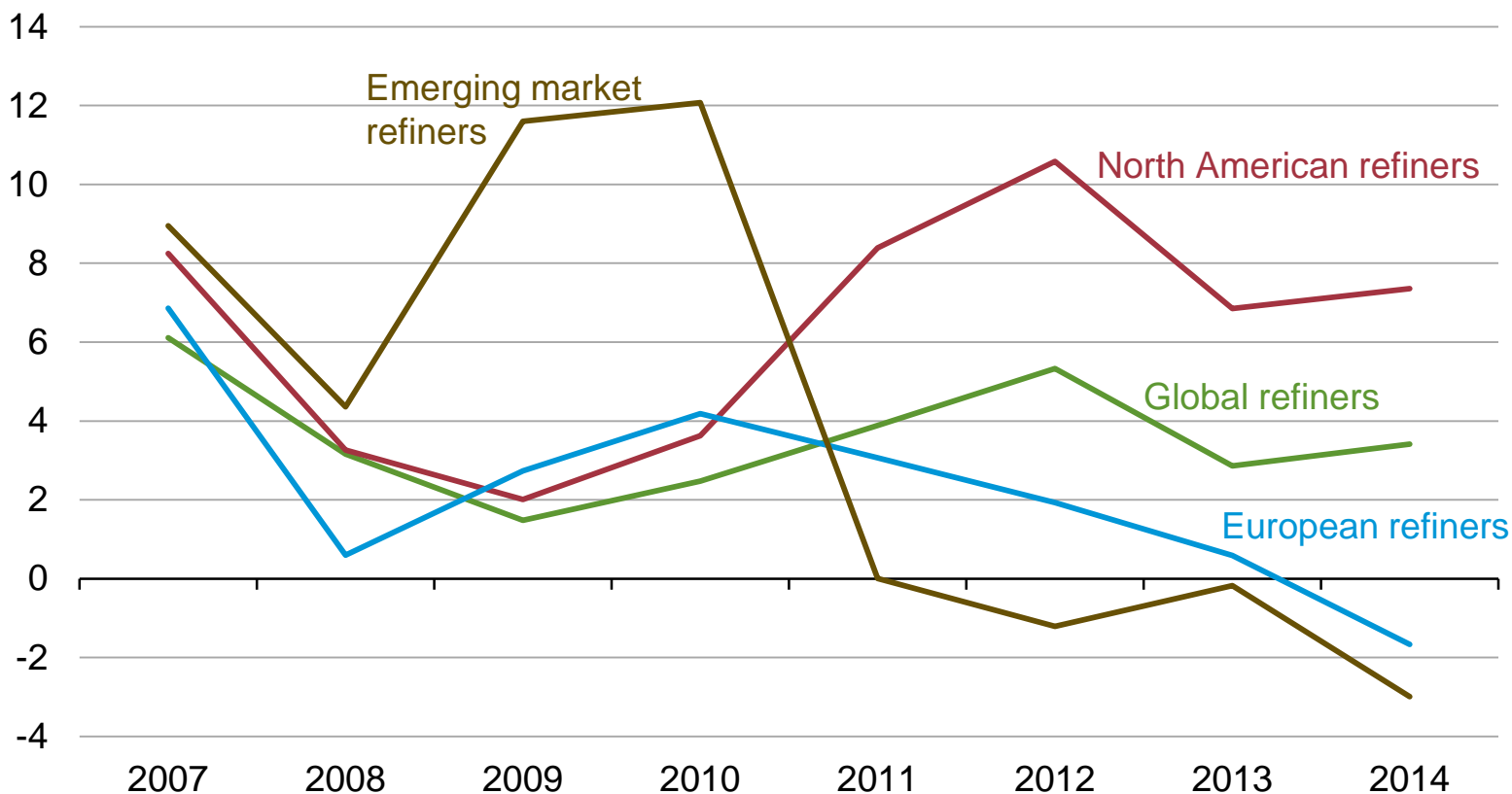


Source: U.S. Energy Information Administration, Evaluate Energy

Note: This chart includes 31 companies

# North American refiners outperformed refiners focused in other regions as well as globally diversified refiners since 2011

Ratio of refining earnings per barrel processed  
2014 \$/b



Source: U.S. Energy Information Administration, Evaluate Energy

Note: This chart includes 31 companies

## Appendix: list of companies

<b>Alon USA Energy</b>	<b>Lukoil (US GAAP)</b>	<b>Rosneft</b>
<b>BP</b>	<b>Marathon Oil Corp.</b>	<b>Royal Dutch Shell</b>
<b>Chevron</b>	<b>Marathon Petroleum Corporation</b>	<b>Sinopec</b>
<b>ConocoPhillips</b>	<b>MOL</b>	<b>Suncor Energy Inc.</b>
<b>Delek US Holdings</b>	<b>Neste Oil</b>	<b>Tesoro Petroleum Corp.</b>
<b>ENI</b>	<b>OMV</b>	<b>TNK-BP International Ltd</b>
<b>ExxonMobil</b>	<b>Petrobras (IFRS US\$)</b>	<b>Total</b>
<b>Grupa Lotos</b>	<b>PetroChina</b>	<b>TUPRAS</b>
<b>HollyFrontier Corp</b>	<b>Phillips 66</b>	<b>Unipetrol</b>
<b>Husky Energy Inc.</b>	<b>PKN Orlen</b>	<b>Valero Energy</b>
<b>Imperial Oil Limited</b>	<b>Repsol</b>	<b>Western Refining</b>
<b>Indian Oil Corp.</b>		

Source: U.S. Energy Information Administration, Evaluate Energy

Note: Some companies exist that merged or split before 2014. A total of 31 companies existed for 2014